THE IMPACT OF THE ADMINISTRATION'S HOUSING PROPOSALS ON OLDER AMERICANS

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CONTENTS

	Page
Opening statement by Senator John Heinz, chairman	1
Statement by Senator William S. Cohen	3

CHRONOLOGICAL LIST OF WITNESSES

Struyk, Raymond J., Washington, D.C., director, housing studies program, the Urban Institute	5
Abrams, Philip, Washington, D.C., General Deputy Assistant Secretary-Deputy Federal Housing Commissioner, U.S. Department of Housing and Urban Development	21
Kinnard, Jeanne, Washington, D.C., steering committee member, Ad Hoc Coalition for Housing for the Elderly	42
Feingold, Ellen, executive director, Jewish Community Housing for the Elderly, Brighton, Mass	46
Peterson, Donald A., administrator, St. John's Lutheran Home, Billings, Mont., accompanied by Laurence F. Lane, director for public policy, American Association of Homes for the Aging	55
Thompson, Marie McGuire, Washington, D.C., housing specialist, International Center for Social Gerontology	62

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FRIDAY, APRIL 23, 1982

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The committee met, pursuant to notice, at 9:35 a.m., in room 5110, Dirksen Senate Office Building, Hon. John Heinz, chairman, presiding.

Present: Senators Heinz, Cohen, and Melcher.

Also present: John C. Rother, staff director and chief counsel; Becky Beauregard, deputy staff director; Deborah K. Kilmer, minority professional staff member; Robin L. Kropf, chief clerk; Cornelia Biddle, staff assistant; and Eugene R. Cummings, printing assistant.

OPENING STATEMENT BY SENATOR JOHN HEINZ, CHAIRMAN

Senator HEINZ. Good morning.

Today the Special Committee on Aging will explore the needs of low-income older persons with respect to housing assistance. We are here today to scrutinize the administration's rental housing proposals and make sure that low-income elderly persons are treated fairly and equitably as we consider basic changes in Federal housing assistance programs.

Although most older persons own their own homes, approximately one-third rent. Of these 4.6 million renters, most tend to have lower incomes than older homeowners and spend a higher proportion of their income on housing than older homeowners or Americans in general. An Urban Institute study, that we will hear more about today, found that 41 percent of elderly renters with incomes below the poverty line spend over 45 percent of their income for rent.

Federal housing programs are currently providing assistance to more than 1.3 million older Americans. The section 202 direct loan program is the most well known of the Federal housing programs serving the elderly. Yet, less than 6 percent of all federally assisted units occupied by the elderly have been constructed under this program. The primary sources of assistance are the section 8 and public housing programs.

Our hearing today will look at the administration's modified section 8 existing housing certificate proposal, as well as the possible effects of other departmental regulatory and administrative actions.

For example, I am particularly troubled by section 8 proposals now under consideration within OMB that would establish a maximum allowable deduction of $300 for medical expenses. This proposal could effectively make older persons choose between good health and good housing. Persons over 65 spend an average of between $700 and $900 out of pocket annually on medical expenses, not counting health insurance costs. The $300 allowance is a far cry from what most elderly actually pay out of pocket for health care. I do not believe we want to place these individuals in such an untenable position.

I am also concerned with the administration's proposal to count food stamps as income for the purpose of calculating rent. Although I understand that we must stretch our Federal dollars as far as possible, I question the need to target food stamp recipients for rent hikes.

These proposals too easily can ignore the human side of the equation. They would require sudden and dramatic increases in rent for low-income elderly persons who live on fixed incomes. I believe that they should not be approved without very careful protections for those most vulnerable.

The section 202 program is one program serving the elderly that has certainly proved its worth. On Tuesday, I, and other Members of the Senate, introduced a bill that would provide for the annual construction of 20,000 units of section 202 housing for the elderly and the handicapped. In addition, the bill reauthorizes the congregate housing services program and sets in place several aspects of current program operation essential to the ongoing, successful performance of the section 202 program.

I developed that bill in conjunction with 26 organizations, which make up the Ad Hoc Coalition for Housing for the Elderly. As chairman of this committee, and as a member of the Banking and Housing and Urban Affairs Committee, I have seen firsthand how the section 202 program works. It works well. It is an excellent program. And it should be continued. Since its reactivation in 1976, it has evolved into the primary Federal financing vehicle for building housing for older and handicapped persons. Through regulatory and administrative policies developed by HUD, the program has consciously targeted itself to the unique needs of the elderly and the handicapped. Over 86,000 units have been constructed. Another 38,000 are under construction.

My bill will reestablish and redefine our commitment to meeting the unique housing needs of older Americans. Both the section 202 and congregate housing services programs are targeted to serve these individuals in a way which I believe promotes their continued independence and self-sufficiency. It saves the taxpayer money to keep them out of institutional settings for which we would have to pay a substantial portion of the cost. I intend today to make sure that we discuss this subject quite thoroughly when Mr. Abrams is before us.

I would like to thank all of our witnesses, before we start, for agreeing to testify before us here today.

Our first witness is from the Urban Institute; Ray Struyk.

Mr. Struyk, before I ask you to proceed, I would like to yield to Senator Cohen, who has a tremendous interest in this committee. I

would like to thank Senator Cohen for being here and welcome him as usual.

STATEMENT BY SENATOR WILLIAM S. COHEN

Senator COHEN. Thank you, Mr. Chairman.

I would like just for a few moments to try to reduce it from the national scope to that of a parochial interest perhaps, but talk about the State of Maine.

In my State——

Senator HEINZ. Senator, is that because as Maine goes, so goes the Nation?

Senator COHEN. I hope that is not the situation, because 40 percent of the people in the State of Maine age 62 or over, are eligible for public housing assistance. And for every unit of public housing which is constructed or rehabilitated, there is at least one elderly person on the waiting list. People who put their names on waiting lists in one of the biggest cities in Maine—and are not large cities by any stretch of the imagination—they are told they may have to wait as long as 20 years before a unit will open up for them. Many people are combing the obituary pages and the hospital notices to learn of a potential housing vacancy.

So, Mr. Chairman, I am pleased that you are holding these hearings. It is my understanding that we are going to have not only representatives from the administration who are currently here, but others who will tell us about the impact that the proposed changes—both budget and the regulatory changes—are going to have on older people.

Many, I would say, of these proposed changes in the Government-sponsored housing programs I think are long overdue. And I do not think there is any doubt about it that we have to do more to stimulate the construction of housing in the private sector, and we have to have better housing choices which are not entirely dependent on Government programs.

But even having said that, I must go on to say that many of the cutbacks in the housing programs are going to leave the elderly, at least in my State, waiting longer for housing, with fewer housing options, and paying more for rent because, as you pointed out, their food stamps are going to be counted as income.

Now, the administration does propose to eliminate the section 8 housing program, which is the largest housing program in the State of Maine, and it is going to require people to count the value of their food stamps as income in calculating those rates.

Now, if you have one out of every three elderly persons in the State eligible for food stamps, you can see why the Maine housing officials are estimating that low-income elderly are going to have to contribute nearly 40—you mentioned the figure 45—but they calculate at least 40 percent of their income is going to go toward housing costs.

I will not get into the whole issue this morning about what the oil prices are in the State of Maine, and what the proposal to impose an oil import fee might do in addition to that to the State of Maine. But there are many elderly people in my State who are paying at least 40 percent of their income for heating costs. Even

though 60 percent of the homes in Maine either use wood as a primary or secondary source of energy, notwithstanding that, 40 percent of their incomes for the elderly, in many cases, are going for fuel.

So, you take 40 percent for fuel and 40 percent for housing, and it does not leave a lot left over for the food that you mentioned, Mr. Chairman, or other necessities or medical supplies.

In addition to terminating the new section 8 construction and the curtailing of construction of the Farmer's Home 515 program, there is going to be a shortage of rental units. Since 1977, 93 percent of all the rental units built in the State were subsidized either by the Farmer's Home, HUD, or the Maine State Housing Authority. And with exceedingly high interest rates, I think that it is doubtful that any developers are going to be building any additional rental units without some sort of Government subsidy.

So, the reductions are going to reduce the number of Maine families who are going to be able to purchase a home. And according to a recent HUD study, the current interest rates have placed the price of the least expensive home—the least expensive home in Maine—out of the reach of 84 percent of the Maine population.

So, there are thousands of Maine residents on waiting lists. There would be more if the prospects of obtaining a loan did not appear so bleak. Many are not even applying anymore.

So, with inflation and interest rates on the rise in recent years, FmHA home loans have represented a major share of the housing activity. And developers have come to depend almost exclusively on this FmHA financing for their businesses. And with the cutbacks in the FmHA funding many of these developers have gone out of business. I think this major cutback in the lending authority is going to cause even further damage to the State housing industry.

Finally, as the chairman has suggested, the elderly housing programs under section 202 are going to be cut in half. And since Maine only qualifies for about 85 units currently under the program, it is going to put increasing pressure on the other housing programs also being slated for reductions or elimination.

It is within this context, Mr. Chairman, that I am looking with interest to the testimony coming from the witnesses. As I say, I am very receptive to changes that have to be made, but before we make these changes we ought to at least anticipate what the consequences are going to be of the curtailing or eliminating existing programs, so that we can measure the kind of pain and depravation that are going to be experienced by many people, not only in the State of Maine, if that is any example, but throughout the country.

Senator HEINZ. Senator Cohen, thank you for an excellent statement.

I would only add, in the spirit of parochialism, that in my State of Pennsylvania there are huge areas where the number of people who rent versus the number of people who own their homes do not reflect the national average. Most people think that something like 70 or 80 percent of Americans live in owner-occupied homes. In the city of Philadelphia the percentage of renters in the entire city is close to 45 percent. It is high, much higher than average statistics would indicate. In most cities, an accurate census of where people

live has never been completed. They actually undercount the number of people who have one or two other families living in their home.

When you have a concentration of renters, such as we have in a city like Philadelphia with 40 to 45 percent of the people renting, Federal efforts aimed at the poorest of those renters, which tend to be the elderly, take on tremendous significance.

We are quite different in Pennsylvania from the State of Maine. Yet our problems are very, very similar.

Mr. Struyk, would you please begin.

STATEMENT OF RAYMOND J. STRUYK, WASHINGTON, D.C., DIRECTOR, HOUSING STUDIES PROGRAM, THE URBAN INSTITUTE

Mr. STRUYK. Good morning.

I am very pleased to have the opportunity to discuss the implications for the elderly of the administration's fiscal year 1983 housing budget proposals. The proposals are very extensive. To focus my prepared comments I will concentrate on the administration's housing voucher proposal, or as called by the administration, the modified section 8 existing program.

The theme of this testimony is that the voucher program proposed by the administration is seriously flawed. This is indeed unfortunate, since greater emphasis on use of the existing stock to assist the elderly appears to be both cost-effective and humane. The limitations in the proposal result largely from an extreme penuriousness. The proposed program is unlikely to produce any improvement in the quality of housing occupied by the elderly and will not serve those most in need of housing assistance. Moreover, failure to assist additional households in the years ahead implies a reduction in the share of eligible elderly households that will be assisted. Luckily, these defects can be remedied with major but straightforward changes in the proposed program.

To understand the implications of the voucher proposal, it will be useful to have in mind a few key attributes of elderly renters. These are national numbers. Unfortunately, I cannot speak to the local variations now.

First, about three out of every four households headed by an elderly person owns the dwelling in which they live. Hence, only about 4 million of the 15 million elderly households are renters.

Among renters, two-thirds live alone, with the balance living with their spouse and/or other family members. The vast majority—83 percent—of elderly renters live in urban areas.

Income determines the ability to pay for good housing. In 1976, 27 percent of all elderly renters had incomes below the official poverty line, and for those living alone the share was even larger. Looking at projections to 1990 of the incomes of the elderly by living arrangement, one sees that those elderly living alone will lose ground compared to elderly couples, and more generally that their economic circumstance is unlikely to improve relative to the cost of living over the decade.

Thus, without Government help the housing situation of elderly renters will probably be no better than it was at the end of the 1970's. While the situation at the close of the decade of the 1970's

11-486 o - 82 - 2

was favorable for most elderly, this was not the case for many of the impoverished elderly renters.

For example, in 1976, among elderly renters with incomes below the poverty line who lived alone, 12 percent lived in units lacking complete plumbing facilities, and another 16 percent lived in units lacking full kitchens, or having serious maintenance problems. Moreover, in the same year, among the impoverished elderly renters, 58 percent spent more than 35 percent of their incomes on housing.

Clearly, if vouchers are to be the principal form of housing assistance, it is critical to examine the elderly's prior experience in such programs. Our most reliable and comprehensive information about how the elderly fare under housing vouchers comes from analyses done as part of the experimental housing allowance program which tested housing vouchers similar to those used in the section 8 existing program. The overall message is that among households with incomes below 50 percent of median income, the elderly become recipients of housing vouchers at about the same rate as do the nonelderly. Roughly about 40 percent of eligibles become participants in an open enrollment program.

It is important, however, to understand that the paths to participation appear to be different for the two groups. The elderly learned about the program at lower rates than the nonelderly, and once they had the requisite knowledge they tended to enroll at lower rates. That is, they applied for the program at lower rates than the nonelderly. On the other hand, once they have shown up at the office and applied for the program they were more likely than the nonelderly to be able to qualify their dwelling unit and thus become a recipient.

Let me now turn to the administration's voucher proposal.

Using the section 8 existing program as now administered as our point of departure, the administration proposes five changes. Two are technical modifications that affect the basic incentives of the program, and three reduce benefit levels.

The two technical modifications would:

First, allow participants to rent apartments that rent for more than the fair market rent, but would continue to base their subsidy on the fair market rent number.

The second technical modification is an increase in the incentive to shop for units with low rents.

Reduction in benefits would come about from:

First, counting the subsidy value of food stamps as income.

Second, lowering the fair market rents very sharply.

Third, eliminating adjustments for inflation for households continuing to participate over the 5-year contract period.

What are the implications of these changes for the elderly?

First, the effects of the technical changes would be significant. For the elderly, the removal of this fair market rent cap in particular would matter. The change would permit households renting standard quality units at the time of enrollment at rents in excess of the fair market rent to continue to live in these units as program participants. Anecdotal evidence indicates that a major share of the higher "exception rents" allowed in the present section 8 program have been used for elderly households in such circum-

stances. But, of course, there are other demands for exception rents, and the number allowed is limited. Hence, lifting the cap should help the elderly overall in becoming participants.

The reductions from the benefit levels of the section 8 existing program that would occur because of the 1981 legislative amendments and those proposed by the Reagan administration are very large by any standard. Our calculations show that for elderly individuals, for example, benefits decline by 15 percent because of the changes enacted in 1981 that increased the participant's contribution to rent from 25 to 30 percent of income. The proposed lowering of fair market rents by itself, ignoring all other changes, would reduce benefits to the same level, on an average, by an additional 23 percent.

By contrast, counting the subsidy value of food stamps drops benefits on average by only 5 percent. But counting food stamps has a more deleterious effect on poorer households. Indeed, only about one-third of the elderly housing assistance recipients—mostly those of the lowest incomes—receive food stamps. So, the impact on the lowest income households is much greater than the average. This particular proposal is spectacularly deleterious.

Considering the combined effects of the change enacted in 1981, and those proposed in the fiscal year 1983 budget, the typical elderly individual participating before and after the changes would have her benefits slashed by 44 percent. For elderly couples the figure is 51 percent. Translated into dollars, the average reduction in annual benefits for elderly couples is from about $2,000 to about $1,000.

What share of elderly households receiving housing subsidies in 1979 would eventually stop receiving payments? That is, which household's payments would be driven to zero due to these proposals? The answer is that our estimates are that about 35 percent of elderly couples now receiving benefits and 17 percent of elderly individuals now receiving benefits would eventually leave the program.

These are very major reductions. Of course, because of various grandfathering provisions it would take some time for these changes to occur. And if program sizes are maintained, those households who are made ineligible by the new provisions will be replaced by other, poorer households.

How are the elderly likely to do as a share of participants in the program? If past patterns hold, they will certainly maintain their share of all housing assistance recipients. The principal reason is that a greater share of the units occupied by the elderly pass program requirements at enrollment than do those of the nonelderly. Thus, as the incentives for making a special effort to qualify for payments—and such effort is required when units do not qualify at enrollment—when such benefits are reduced dramatically, fewer households will exert the effort. Thus, overall enrollment patterns will be increasingly driven by the extent to which families qualify in place.

While the participation of the elderly is not adversely affected by falling benefits, the program's ability to achieve its housing objectives certainly is. Two housing objectives are to insure that families live in dwellings meeting certain minimum physical standards, and

that families do not spend an excessive share of their income on housing. The high fraction of households spending over 35 percent of their income on housing suggests that most program participants will be helped in this area. However, improvement in the quality of the stock inhabited by the poor seems unlikely. The experimental housing allowance program offers convincing evidence that those households living in units with many defects—and hence often the poorest households—have a lower chance of becoming program participants. Hence, the reduction in program benefits will shift the composition of participants toward those who live in good housing when they enroll. In short, the administration has proposed a very peculiar form of income supplement.

In closing, I would like to point out how close we are to being able to assist all the elderly renters who are income eligible to receive assistance after allowing for the 1981 amendment. By the end of 1983, there will be 3.6 million households receiving rental assistance. Of these 1.4 million will be elderly headed. In the same year 1.9 million elderly renters will be eligible for housing assistance. Applying the participation rates found in the open-enrollment experimental housing voucher program, we estimate that only 200,000 to 250,000 elderly renters remain to be served. In other words, 85 percent of those who would accept assistance are already served. With the goal of "full coverage" so close, the administration's ceiling on program growth is especially misguided.

Overall, the voucher program that accepts the administration's technical changes to section 8 existing program, but maintains higher benefit levels, offers an effective means of helping many elderly with their housing problems while allowing them to remain in their own units. However, vouchers should be used to expand the number of poor assisted to live in good housing, not merely to maintain current participants.

Senator HEINZ. Mr. Struyk, thank you very much. Your prepared statement will be entered into the record at this point.

[The prepared statement of Mr. Struyk follows:]

PREPARED STATEMENT OF RAYMOND J. STRUYK

Good morning. I am very pleased to have the opportunity to discuss the implications for the elderly of the administration's fiscal year 1983 housing budget proposals with the committee. The proposals are very extensive. To focus my prepared comments I will concentrate on the administration's housing voucher proposal, or as called by the administration, the modified section 8 existing program.

The theme of this testimony is that the voucher program proposed by the administration is seriously flawed. This is indeed unfortunate since greater emphasis on use of the existing stock to assist the elderly appears to be both cost-effective and humane. The limitations in the proposal result largely from an extreme penuriousness. The proposed program is unlikely to produce any improvement in the quality of housing occupied by the elderly and will not serve those most in need. Moreover, failure to assist additional households in the years ahead implies a reduction in the share of eligible elderly households that will be assisted. Luckily, these defects can be remedied with major but straightforward changes to the proposed program.

ELDERLY RENTERS

To understand the implications of the voucher proposal, it will be helpful to have in mind a few key attributes of elderly renter households, those of the elderly who could participate in housing assistance programs. First, about three out of every four households headed by an elderly person owns the dwelling in which they live. Hence, only about 4 million of the 15 million elderly households are renters. The

subpopulation of renters, though, differs in important ways from homeowners—many more are individuals living alone and the income level of renters averages about 80 percent of homeowners.

Among elderly renters two-thirds live alone, with the balance living with their spouse and/or other family members. The vast majority of elderly renters live in urban areas (83 percent compared with 71 percent of all elderly in these areas).

Income determines the ability to pay for good housing. In 1976, 27 percent of all elderly renters had incomes below the official poverty line; for those living alone the share was even greater. Looking at projections to 1990 of the incomes of the elderly by living arrangement done by others at the Urban Institute, one sees that those elderly living alone will lose ground compared to elderly couples, and more generally that their economic circumstances is unlikely to improve relative to the cost of living over the next decade.

Thus, without Government help the housing situation of elderly renters will probably be no better than it was at the end of the 1970's. While the situation at the close of the decade of the 1970's was favorable for most elderly, this was not the case for many impoverished elderly renters. For example, in 1976, among elderly renters with incomes below the poverty line who lived alone, 12 percent lived in units lacking complete plumbing facilities, and another 16 percent lived in units lacking full kitchen facilities or having serious maintenance problems. Moreover, in the same year, among the impoverished elderly households, 58 percent spent more than 35 percent of their incomes on housing. Indeed, 38 percent of all elderly renters devoted over 35 percent of income to housing.

FEDERAL ASSISTANCE

To be sure, Federal housing assistance is extremely important to the elderly. Roughly 3.1 million households were being served by HUD renter programs by the end of 1980, as the Reagan administration took office. Of these, 40 percent (or 1.2 million) were headed by elderly persons. By contrast only about 30 percent of all eligible households were elderly headed. About 43 percent of all income-eligible elderly renters were being assisted in 1980.

The section 202 housing construction program included the highest percentage of elderly—80 percent—although this is understandable since the program is restricted to the elderly and handicapped or disabled nonelderly. The program serving the lowest fraction of elderly was the section 8 existing program, although even here one participant in three was elderly. Overall, about 72 percent of all the elderly being assisted resided in units built by the Government (public housing) or subsidized through new construction or substantial rehabilitation.

THE ELDERLY'S EXPERIENCE IN A HOUSING VOUCHER PROGRAM

Clearly, if vouchers are to be the principal form of housing assistance, it is critical to examine the elderly's prior experience in such programs. Our most reliable and comprehensive information about how the elderly fare under housing vouchers comes from analyses done as part of the experimental housing allowance program which tested housing vouchers similar to those used in the section 8 existing program. The overall message is that among households with incomes below 50 percent of median income, the elderly become recipients of housing vouchers at about the same rate as do the nonelderly—roughly about 40 percent of eligibles become participants.

It is important, however, to understand that the paths to participation appear to be different for the two groups. The elderly learned about the housing voucher program at lower rates than the nonelderly; and once they had the requisite knowledge, enrolled (i.e., applied to participate) in the program at lower rates than the nonelderly. However, once determined eligible to participate (enrolled), elderly headed households were more often living in or able to find a dwelling that would pass the program's standards, and thus become a recipient than were nonelderly households.

In recent work we have also found that the ultimate participation for the nonelderly who live in substandard units at the time they enroll is quite sensitive to the size of the subsidy benefit they would receive. Those who would receive small subsidy payments were unlikely to do what was necessary to qualify a dwelling. By contrast, we find the elderly's participation is insensitive to the subsidy offer. We believe this is due to the importance of other factors for the elderly in qualifying a unit, such as health status and assistance from other family members in finding a new unit, for the elderly in qualifying a unit. In summary, the key to assisting more needy elderly in a voucher program is in getting them to apply to the program at higher rates.

THE ADMINISTRATION'S VOUCHER PROPOSAL

Using the section 8 existing program as now administered as our point of departure, the administration's proposal embodies five changes—two are technical modifications that affect the basic incentives of the program and three affect the benefit levels.

Technical modifications

(1) Allow participants to rent apartments renting for more than the fair market rent (FMR), but base their subsidy on the FMR.

(2) To increase the shopping incentive, in all cases calculate a participant's subsidy as the difference between the FMR and some fraction of income, even if rent actually paid is less than the FMR.

Benefit changes

(3) Count the subsidy value of food stamps as income.

(4) Lower FMR's sharply from the rent of the median dwelling in the rent distribution of units that pass program standards that are occupied by recent movers to the rent of a unit at the 40th percentile of the rent distribution of all units passing standards.

(5) Base the subsidy for the 5-year contract period on the applicable FMR in the first year, i.e., eliminate adjustments to the FMR's for inflation for households continuing to participate.

IMPLICATIONS FOR THE ELDERLY

The effects of the technical changes would be significant. For the elderly, the removal of the FMR cap in particular would matter. This change would permit households renting standard quality units at the time of enrollment at rents in excess of the FMR to continue to live in them as program participants. Anecdotal evidence indicates that a major share of the higher "exception rents" allowed in the present section 8 program have been used for elderly households in such circumstances. But there are other demands for exception rents, and the number of exceptions that can be granted is limited. Hence, the lifting of the cap should help the elderly overall in becoming participants.

The changes from the benefit levels of the section 8 existing program (as constituted in 1980) by the 1981 legislative amendments and those proposed by the Reagan administration are large by any standard. The figures in table 1 summarize our analysis of the impact of these changes on the size of the subsidy received by program participants. In these computations an applicable section 8 existing payment for 1983 was computed for each household receiving rental assistance in 1979 whose income was below 50 percent of the area median. Then new payments were computed for the 1981 changes, for each of the proposed changes in the administration's budget, and then all changes combined. Any household that no longer received a positive payment for the all-changes-combined calculations was dropped from the population of households being analyzed. Thus the figures in the table are for those households who would still be receiving a positive subsidy payment under the most restricted set of benefit rules. Also note these calculations exclude the effects of inflation pushing up rents at a higher rate than incomes, i.e., of the last of the proposed benefit changes listed above.

TABLE 1.—ESTIMATED PERCENTAGE CHANGE IN SUBSIDIES TO CURRENT HOUSING PROGRAM PARTICIPANTS FROM CHANGES ENACTED IN 1981 OR PROPOSED FOR ENACTMENT IN 1982[1]

Household type	Increased participant rent share, 0.25 to 0.30 (1981 law)	Count subsidy value of food stamps (proposed)	Lower fair market rents (proposed)	All changes combined
Husband-wife, with 2 children	−18	−5	−25	−48
Elderly couples	−19	−5	−26	−51
Elderly individuals	−15	−5	−23	−44
All households[2]	−14	−6	−22	−44

[1] 1980 rules for the section 8 program were applied to all renter households living in subsidized housing regardless of program to get base subsidy figure. Households included in this analysis are only those who would receive a positive subsidy payment after all changes were implemented.

[2] Includes other household types besides those listed earlier in the table.

Source: Tabulations of Current Population Survey data.

The figures in the table show that for elderly individuals, benefits decline by 15 percent because of the change enacted in 1981 that increased the participant's contribution to rent from 25 to 30 percent of income. The proposed lowering of the FMR's by itself, i.e., ignoring other changes, would reduce benefits to the same group on average by an additional 23 percent.

By contrast, counting the subsidy value of food stamps drops benefits on average by only 5 percent. However, counting food stamps has more deleterious effects on poorer households. Indeed, only about one-third of elderly housing assistance recipients receive food stamps. But the impact on the lowest income households of this provision is extreme.

Considering the combined effects of the change enacted in 1981 and those proposed in the fiscal year 1983 budget, the typical elderly individual participating before and after the changes would have her benefits slashed by 44 percent. For elderly couples the figure is 51 percent. Translated into dollars, the average reduction in annual benefits for elderly couples is from $2,055 to $1,009.

Such reductions in benefits can have three kinds of effects: (1) They cause some households to become ineligible, in the sense that they no longer receive positive benefits; (2) they will discourage some households who enroll in the program but whose units do not meet standards at enrollment from expending the effort necessary to become participants; and (3) they will discourage some households from bothering to enroll. Below we consider the first two of these effects.

What share of households receiving housing subsidy payments in 1979 would eventually stop receiving payments, i.e., those whose payments no longer exceeded zero, if the Reagan administration's proposals were added to the changes legislated in 1981? The percentage reductions are as follows:

Household type:	*Percentage change*
Husband-wife family, with 2 children	−36
Elderly couples	−35
Elderly individuals	−17
Other households	−20
All households combined	−21

These are major reductions. Of course, because of various "grandfathering" provisions it would take some time for these changes to occur; nevertheless they provide a reasonable measure of expected impact. Because of the substantially lower incomes of elderly individuals compared to elderly couples the percentage reduction for individuals is only half of that for couples. If program sizes are maintained, those households who are made ineligible by the new provisions will be replaced by other, poorer households.

How are the elderly likely to fare? If past patterns hold, they will certainly maintain their share of all housing assistance recipients. The principal reason is that a greater share of the units occupied by the elderly pass program requirements at enrollment than do those of the nonelderly. Thus, as the incentives for making a special effort to qualify for payments—and such effort is required by those who do not qualify at enrollment—is reduced dramatically, fewer households will exert the effort. Thus, overall enrollment patterns will be increasingly driven by the extent to which families qualify in place. Under these conditions vouchers have more of an income supplement impact and less of a housing impact.

This line of argument is supported by the experience in the housing allowance experiments. Results from the supply experiment, shown below, are consistent with those from the demand experiment.

PERCENTAGE OF ENROLLEES WHO QUALIFIED FOR PAYMENT IN THEIR PREENROLLMENT DWELLING

	White households		Black households	
	Elderly	All	Elderly	All
Preenrollment unit certified	78	61	66	42
Without repair	49	37	37	21
With repair	29	24	29	21

The elderly qualified their preenrollment units at considerably higher rates than households on average, especially units not requiring repairs.

Beyond this is another factor. As noted earlier, the transition from enrollment to recipiency status of the elderly whose units do not meet requirements at enrollment is quite insensitive to benefit levels, while the transition by their nonelderly counterparts is sensitive. Again, the reduction in benefits will probably work to the elderly's advantage in terms of their representation among all new participants in a voucher program. Thus, the first broad implication of the proposed changes is that more elderly will participate at the expense of the nonelderly.

While the participation of the elderly is not adversely affected by reducing benefits, the program's ability to achieve its housing objectives is. Two housing objectives are to insure that families live in dwellings meeting certain minimum physical standards and that they do not spend an excessive share of their income on housing. The high fraction of households spending over 35 percent of income on housing suggests that most program participants will be helped in this second area. However, improvement in the quality of the stock inhabitated by the poor seems unlikely. The experimental housing allowance program offers convincing evidence that those households living in units with many defects—and hence poorer households—have a lower chance of becoming program participants. Hence, the reduction in program benefits will shift the composition of participants toward those who live in good housing when they enroll, since those who do not will search less for better housing. Therefore, little housing upgrading is expected. In short, the administration has proposed a peculiar form of income supplement.

HOUSING VOUCHERS, HOUSING POLICY, AND THE ELDERLY

It is instructive at this point to rank how well the elderly would be served under various programmatic options. The largest share of subsidy resources goes to the elderly under the program mix in effect in 1981, one characterized by a substantial share of new construction projects set aside for occupancy by the elderly (or nonelderly handicapped) and the elderly competing with others for all other subsidy slots. A clearly inferior option for the elderly would be a discontinuance of the construction of specially set aside projects and the reliance on the section 8 existing program as structured in 1980. Nonelderly households would compete strongly for these slots: The benefits are large enough for many to induce them to hassle with landlords or move to better dwellings to qualify for payments.

In between is the program proposed by the Reagan administration—a few elderly earmarked new construction projects and a massive reduction in program benefits under the voucher program. The elderly will capture a larger share of the slots than under a no-change-in-section 8 existing scenario, but the benefits received by each participant will only be about 60 percent of the level under section 8 existing and they will go mainly to those already living in good housing when they enroll in the program. Of course, this is simply cutting a fixed pie into different slices—fixing the number of assisted households, as proposed by the administration, is an egregious error.

A superior option is to pursue a broad strategy of placing greater reliance on the existing stock in implementing housing policy, but to keep subsidy levels higher than those proposed by the administration to insure that the housing upgrading objective can be accomplished. How can adequate participation of the elderly be insured? In a limited enrollment program this should not be a problem. Simple resort to the proportionality requirements of the type in the housing assistance plans should be sufficient. Where it is not, modest outreach efforts, possibly combined with some help in finding suitable units where necessary will certainly do the trick.

In closing, I would like to point out how close we are to being able to assist all elderly renters who are income eligible to receive assistance. By the end of 1983, there will be 3.6 million households receiving rental assistance; of these 1.4 will be elderly headed. In the same year 1.9 million elderly renters will be eligible for assistance. Applying the participation rates found in the open enrollment experimental housing voucher program, we estimate that only 200,000 to 250,000 elderly renters really remain to be served. In other words, 85 percent of those who would accept assistance are already served. With the goal of "full coverage" so close, the administration's ceiling on program growth is especially misguided.

Overall, a voucher program that accepts the administration's technical changes to section 8 existing but maintains higher benefit levels offers an effective means of helping many elderly with their housing problems while allowing them to remain in units of their own choice. However, vouchers should be used to expand the number of poor assisted to live in good housing, not to merely maintain current participants.

Senator HEINZ. One question I would like to ask you in clarifying your position. You do not have a conceptual problem with the voucher approach. What you have a problem with is the amount of money that would actually be available on a per voucher basis.

Mr. STRUYK. That is correct.

Senator HEINZ. You made it quite clear what your problems are in that regard. But I wanted to make it clear for the record that conceptually you have no problems with the vouchers.

Mr. STRUYK. That is correct.

Senator HEINZ. I understand that when Mr. Abrams testifies he is going to justify counting food stamps as income in determining the eligibility and rent of assisted housing participants on three bases. First, that some people are getting benefits that are higher than others. Second, that not everybody is getting Government-assisted housing. Third, that most people who need food stamp aid do receive such aid. The argument is that there are really two classes of poor people: Those that are lucky enough to get Government-assisted housing, and those that are not. What he will argue is that he is trying to equalize those benefits so that we do not have a disproportionate distribution.

How do you respond to that argument?

Mr. STRUYK. I guess I have two responses.

One is that the administration needs to define for us what they view as the minimum standard of living, including benefits from all sources. They have not done that.

The second point that I would make is that if you did that, I doubt very seriously you would take the bludgeon approach they are taking of simply saying: We are going to count 100 percent of food stamps. You would use the tax rate of less than 100 percent is what I am saying.

We have been through the welfare reform discussions many times in this country, most recently and most thoroughly in 1977. At that time all of these proposals were put on the table and the administration then certainly did not suggest this sort of total approach. In fact, there was a great deal of time and attention spent to try to fit these programs together.

And, indeed, this takes me to another point, which is the inequity. One of the reasons for the inequity here is, as you point out, that not everyone receives housing assistance. But the way to allow yourself to have a fully integrated welfare system is to decide what elements you want to provide and then make those generally available. For the elderly at least, you are really within striking distance of doing that.

Senator HEINZ. I find your figures at the close of your testimony quite interesting striking in that regard. We would appear to be

11-486 O - 82 - 3

very close and that strikes me, among other things, as a very strong argument for continuing the section 202 program, at least at the level of 20,000 units a year.

You also stated, that with respect to the proposal to count food stamps as income, that it would affect the poorest of the elderly more than it would the so-called "best off." We ought to understand that the "best off" by definition are those with incomes at or below 50 percent of the median. That is the cutoff now for eligibility for publicly assisted housing.

Can you further discuss how counting food stamps as income would effect somebody, if you will, at the top and somebody who is substantially below that 50-percent level?

Mr. STRUYK. I can only do that in broad terms. We have not done detailed analysis by income level. But conceptually it is fairly straightforward. Since the size of the subsidy value of food stamps declines as income increases, the lower income households will have a larger subsidy value and, therefore, their incomes counted in calculating their rental contribution will go up more than higher income households.

Senator HEINZ. Mr. Struyk, I do not mean to interrupt. I think we all understand that.

Mr. STRUYK. OK.

Senator HEINZ. If you do not have any numbers available, maybe what you could do for our benefit is work through a couple of examples and submit them for the record.

Mr. STRUYK. Fine.

Senator HEINZ. Somebody at 50 percent of median income and somebody who is substantially below that. I think that this information would be helpful to us.

[Subsequent to the hearing, Mr. Struyk supplied the following information:]

THE IMPACT OF COUNTING FOOD STAMPS [1]

We have examined the impact of recent legislated and proposed changes in housing assistance programs for a typical four-person (two adults, two children) household in Chicago. The estimated 1983 median household income for a Chicago family of four is $26,452. Subsidy levels were calculated for various household incomes ranging from 10 to 80 percent of area median income. Benefits were computed under various housing assistance programs. First, benefits were calculated assuming the pre-1981 section 8 existing housing program remained unchanged between 1981 and 1983. The scenario calculates the 1983 household's subsidy using the legislative changes imposed by the Housing and Community Development Amendmer of 1981. These changes increased the recipient's tax rate—the percent of income the recipient must spend on rent—from 25 to 27 percent of adjusted household income.

In addition, the Secretary reduced fair market rent ceilings by computing fair market rents as the 40th percentile, rather than the median rent, of recently occupied dwellings passing housing standards. Third, the changes proposed in the Housing and Community Development Amendments of 1982 were used to compute subsidies. The administration has proposed to: (1) Count found stamps as income; (2) move from fair market rents to payment standards; and (3) increase recipients' tax rate from 0.27 to 0.30. Both the individual and the cumulative impacts of these changes were simulated for each of the eight household income levels. Finally, the cumulative impact of the 1981 amendments and the proposed 1982 amendments were simulated. The household's annual subsidy levels are listed in table 1 and the percentage changes in subsidy levels are listed in table 2.

[1] Prepared by Thomas Thibodeau.

TABLE 1.—ANNUAL 1983 HOUSING SUBSIDY LEVEL FOR TYPICAL CHICAGO HOUSEHOLD WITH ALTERNATIVE INCOME LEVELS

	Percentage of area median income							
	10	20	30	40	50	60	70	80
Pre-1981 sec. 8 existing program	$4,711	$4,050	3,388	$2,727	$2,066	$1,404	$743	$82
1981 amendments	4,338	3,624	2,909	2,195	1,481	767	53	−662
1982 proposals:								
Counting food stamps:								
10 percent ceiling	4,288	3,503	2,716	1,931	1,481	767	53	−662
20 percent ceiling	4,238	3,382	2,524	1,897	1,481	767	53	−662
Full impact	3,531	2,972	2,436	1,897	1,481	767	53	−662
Increasing tax rate:								
10 percent ceiling	4,288	3,503	2,716	1,931	1,146	360	−425	−531
20 percent ceiling	4,283	3,489	2,695	1,902	1,108	315	−479	−1,010
Full impact	4,283	3,489	2,695	1,902	1,108	315	−479	−1,273
Payment standards:								
10 percent ceiling	4,288	3,503	2,716	1,931	1,205	491	−223	−531
20 percent ceiling	4,283	3,382	2,695	1,919	1,205	491	−223	−938
Full impact	4,062	3,348	2,633	1,919	1,205	491	−223	−938
All changes:								
10 percent ceiling	4,288	3,503	2,716	1,931	1,146	360	−425	−531
20 percent ceiling	4,283	3,382	2,695	1,667	835	39	−755	−1,010
Full impact	3,110	2,489	1,894	1,295	835	39	−755	−1,549

TABLE 2.—FULL IMPACT PERCENTAGE CHANGES IN SUBSIDY LEVELS FOR TYPICAL 2-ADULT, 2-CHILD HOUSEHOLD IN CHICAGO

	Percent of area median income							
	10	20	30	40	50	60	70	80
1981 amendments	−8	−11	−15	−20	−31	−45	−93	(1)
1982 proposals:								
Counting food stamps	−18	−18	−16	−14	0	0	0	0
Increasing tax rate	−1	−4	−7	−13	−25	−59	(1)	(1)
Going to payment standards	−6	−8	−9	−13	−19	−36	(1)	(1)
Cumulative impacts	−28	−31	−35	−41	−44	−95	(1)	(1)
Cumulative impacts of 1981 amendments and 1982 proposals	−34	−39	−44	−53	−60	−97	(1)	(1)

[1] Subsidy becomes negative.

Annual subsidy levels in 1983 under the 1981 program rules ranged from $82 for a household at 80 percent of area median income to $4,711 for a household at 10 percent of area median income. The Housing and Community Development Amendments of 1982 forced the upper income households out of the program by generating negative subsidy levels for these households. The percentage reduction in subsidy between the pre-1981 program and the program incorporating 1981 amendments increased as incomes increased, ranging from an 8 percent subsidy reduction for the poorest households to a 93-percent reduction for the wealthiest remaining participant.

This example assumes that the household will receive food stamps in 1983, and that all other income is earned income. The value of food stamps allotted to the household was calculated using current regulations regarding eligibility and subsidy levels. Households with incomes above the 40th percentile of median income in Chicago are ineligible for food stamps, hence, their countable income won't change if the 1982 amendments are passed into law.

The current 10 percent ceiling on the annual maximum increase in tenant's contribution prohibits such dramatic changes in recipients benefit levels, however. Under the current law for example, the household with incomes at 10 percent of area median would receive an annual subsidy of $4,288, which represents a $50 (1.2 percent) reduction from the 1981 benefit level, because the increase in tenants' con-

tribution is limited to 10 percent. The 1982 proposal seeks to raise this ceiling to 20 percent. If adopted, the 1983 benefit level for this household would be $4,238, which represents a $55 (1.3 percent) reduction over the 1981 level. These ceilings on maximum increases in recipient contribution serve to gradually reduce program costs and benefits for current participants. The full impact of counting food stamps as income has a more dramatic longrun effect—eventally reducing the household's subsidy by an average of 17 percent for households receiving food stamps. For the household with income at 10 percent of area median, for example, the full impact of counting food stamps as income is to reduce the household's benefit level by $807 (18 percent) to $3,531.

Increasing recipient's tax rate from 0.27 to 0.30 reduces subsidy levels by 1 percent for the poorest households with incomes at 60 percent of area median. Household with larger incomes are eventually forced out of the program because their subsidy becomes negative.

Using payment standards instead of fair market rents reduces subsidy levels to a greater extent for poor households but a lesser extent for higher income households, the full impact ranging from 6 percent reductions for the poorest households to 30 percent reduction for higher income households.

The cumulative impact of all three changes in the 1982 amendments sharply reduces subsidy levels, ranging from 28 percent reductions in subsidy levels for the poorest households to 95 percent reductions for households that would still receive a positive, although small ($39), annual subsidy. The cumulative full impact of all three changes is larger than the sum of the individual percentage reductions of the interaction between tax rates and incomes. If the proposals for higher tax rates and counting food stamps as income were adopted, then the new subsidy formula would be applying a higher tax rate to a higher income for those households receiving food stamps. This multiplicative effect eventually reduces the subsidy for poorest income households by 28 percent.

Finally, we calculated cumulative effects of the changes legislated in the Housing and Community Development Amendments of 1981 and the proposed Housing and Community Development Amendments of 1982. The results indicate that current constraints on eligibility imposed by the income eligibility ceiling would not be binding because the subsidy for households above this level would eventually be very small or negative. Subsidy levels for households at 50 percent of area median incomes are reduced by 60 percent ($1,231) between the pre-1981 section 8 existing housing program and the proposed Housing and Community Development Amendments of 1982. The poorest households incur larger dollar reductions ($1,601) but a smaller percentage reductions (34 percent).

Senator HEINZ. My time has expired.

Senator Cohen.

Senator COHEN. I just have one question, Mr. Chairman.

You indicated that a major flaw is that there is no definition of a minimum standard of living in the administration's proposal. If you are going to have a minimum standard of living, do you not have to take into account regional disparities?

I mean can you have a minimum standard for Alabama or Los Angeles or northern Maine? Can you apply an equal standard to everybody?

Mr. STRUYK. No.

And your followup question should be: I understand that the poverty line, for example, is not regionally adjusted.

Senator COHEN. Right.

Mr. STRUYK. When confronted with this problem in the past the response has been that the major variable cost element has been housing cost. So, you could use a mix of housing which would vary regionally, and even by locale, as it does with the fair market rents and a constant bundle of other services and get your regional cost of living largely on the basis of housing.

Senator COHEN. You see, because when you take into account it is a very beautiful day out today and we are told it is going to be

75° or maybe 80° over the weekend, it was snowing in Bangor, Maine, yesterday.

Mr. STRUYK. But the major cost there is heating.

Senator COHEN. That is right.

Mr. STRUYK. Which we would pick up.

Senator COHEN. Heating has to be picked up.

What I was getting at before is if you start having 40 percent of the people who are 62 or older spending 40 percent on housing and 40 percent on fuel, it does not leave much left over.

Mr. STRUYK. Senator, there may be some double counting there. I am not sure what is in your housing figure there. If it is shelter exclusive of utility payments, it is quite right. There is very little left over.

Typically, however, many of these rental contracts are with heat. For homeowners a majority of the costs, especially in Maine, would be heat. The full housing cost would include heat.

I am not sure just exactly how that adds up.

Senator COHEN. Well, if you would, perhaps you could wait until we have the administration witnesses testify. Then you would be available for further questioning, if you can stay.

Mr. STRUYK. Certainly.

Senator COHEN. It would be helpful to me.

Mr. STRUYK. I will be happy to stay.

Senator HEINZ. Do you have any further questions?

Senator COHEN. No.

Senator HEINZ. I have one other question.

You have done a very considerable study on this subject, Mr. Struyk. But my understanding is that your study did not take into account some of the changes the administration has proposed.

In my opening statement I mentioned the fact that there is a proposed regulatory change which would cap the amount of medical expenses that might be counted at $300 per year.

What effect would that proposal have, were it to go into effect, in addition to the ones that you have described to us? What kind of synergistic effect might there be? Would it be a compounding catastrophe for the elderly? What would happen?

Mr. STRUYK. It would compound certainly the share of income that would have to go to rental payments in assisted housing programs.

For current program participants we do not have good information on the extent to which medical deductions are claimed now. So, it is not feasible to simulate accurately what the effects would be.

Senator HEINZ. One last statistical question.

How many of all the people who live in assisted housing are elderly?

Mr. STRUYK. Currently—that is, at the end of 1980 I think there were 3.1 million assisted rental units and of those 1.2 million were occupied by elderly headed households.

Senator HEINZ. 1.2 million?

Mr. STRUYK. At the end of 1980; yes.

Senator HEINZ. As I understand your study, the trend would indicate that, because there are a higher proportion of elderly that are eligible, we might very well end up one of these days with the

majority of participants in federally assisted housing programs, assuming that we continue them, being elderly.

Is that right or would that be an incorrect conclusion?

Mr. STRUYK. That is quite within the realm of possibility.

First of all, currently about 40 percent of participants are elderly. And if you took the administration's proposals and implemented them, there would be a modest shift in favor of the elderly in terms of the number of households who are eligible. That would happen automatically. Just changing the profiles of participants by those who were no longer eligible, there would be a modest further increase in those who are eligible who are program participants who are elderly on the order of 3 to 4 percent. So, the elderly would rise to about 43 or 44 percent of participants.

Senator HEINZ. And under current policy what would happen?

Mr. STRUYK. Under current policy with a 50-percent median cutoff the same would happen. In fact, it might accelerate a little bit because of the very high share of newly constructed units that the elderly account for.

If you proceeded with new construction programs as you had under sections 8 and 202 programs, the elderly would rise in the share of participants.

Senator HEINZ. One final question. What is your definition of a "minimum standard of living"?

Mr. STRUYK. I do not have one in my pocket.

I think the poverty definition is too restrictive. And I would start with the Bureau of Labor Statistics low-income budget for an elderly couple, if I were going to start doing this. I have not particularly thought about this before I sat down here. So, this is not a thoughtful response.

Senator COHEN. But can you criticize the administration for not having thought about it when your institute has not thought about it?

In other words, if you say the fatal flaw is that they do not define the "minimum standard of living," should we not help to try and define a "minimum standard of living"?

Mr. STRUYK. We would be delighted to help them define a "minimum standard of living."

Let me say that my general view of the proposals that have been put forward here, combined with 1981 changes, are a series of essentially ad hoc thoughts that have been stapled together. And the burden is on the administration to put forward something that I would term more coherent and more thoughtful. If they want help doing that, we would be delighted to do it.

Senator COHEN. Would you agree that the present system needs to be changed, revised, modified?

Mr. STRUYK. Yes; I would agree.

I would think that some of the targeting changes that have been made are good. For example, reducing the income limits are a very useful step. I think that some shifting to greater emphasis on the existing stock is a very useful and a very cost-effective step.

There are a number of principles that are changes in policy direction that I think are absolutely correct. And I am very afraid that what is going to happen is, because of the particular aspects of the proposals, the good things about them are going to get thrown

away; the entire program will get lost or dismantled or changed in a way that is really unfortunate.

Senator COHEN. Does your institute have a study or an analysis of where you think the flaws are in the existing system of subsidized housing?

Mr. STRUYK. Not a broad single statement. We have done a lot of criticism over time, careful studies on housing vouchers and their role, for example, in the total program of assisted housing, which addresses that in part, but it is not a comprehensive statement.

Senator HEINZ. Mr. Struyk, before you go, one other question occurred to me, which is this: There is certainly no doubt that there is a very peculiar distribution of benefits to individuals in similar circumstances in the same State when it comes to poverty benefits. And indeed the value of having a federally assisted rental unit of housing is substantial. It could be $1,000. It could be a couple of thousand. Or it might even be $3,000 worth of value to the person, depending upon the quality of the unit and what is available.

You have suggested that the conceptual answer to the question of equalization of Government assistance for people who are poor is in the definition of "minimum standard of living." But we do not have a good definition available and it is going to be tough for us in the next month or two to come up with a workable definition, analyze its public policy implications, and write legislation. We need to act on legislative proposals within the next few weeks.

My question to you is this: Given the fact that it is a little late in the budget cycle to talk about developing a "minimum standard of living" to correct for the disproportionate distribution of benefits among the poor, what would you suggest we do this year? Should we say no to any suggestion? As you know, our constituents are all very aware of the fact that there are very peculiar facets to Federal efforts to alleviate poverty. Often some who are really poor off do not seem to get as much help as those who are better off. It is not perceived as fair.

Mr. STRUYK. At the risk of seeming pedantic, let us back up a minute.

The problem is it is just not food stamps and housing assistance. It is various medicaid benefits. It is energy assistance. You know, there are a large number of these income-conditioned programs that people participate in in fairly episodic ways that are very hard to integrate. And what you are doing is you are saying: Gee, well here is one we have happened to pick out. Here is one relationship we have happened to pick out.

What concerns me is that we have not thought through what that set of relationships is. And we do not know——

Senator HEINZ. That is why we invited you.

Mr. STRUYK. No; you invited me not to redesign the welfare system. You asked me to comment, I think, on the proposal.

Senator HEINZ. Well, you know, we hope for the best.

Mr. STRUYK. The problem is the patchwork quilt nature of the welfare system.

If you were going to try to integrate, to do some partial integration, which is what we are talking about here, the principle you have to adhere to is that combined benefits are always larger for lower income households. This is your point. So, if you are going to

set a tax rate on food stamps, you have to set it in such a way that it is lower for lower income households and higher for others. The schedule must be defined in a way that it holds to this rule: Provide more assistance to lower income households consistently as you move up and down the income ladder.

Now, that does not get you very far, but it says that you cannot simply declare that you are counting food stamps and hope that that outcome will happen.

Senator HEINZ. What would happen if, rather than counting food stamps as income for the purpose of determining rent subsidies, we did it the other way around. If we set a value of some kind on the housing and used that in determining food stamp benefits? Would that not be fairer?

Mr. STRUYK. If you are going to go this route at all, you should be consistent and tax everything: Always count another benefit or benefits of any given program.

That gets fairly complicated because it is a simultaneous equation problem when we have multiple programs involved.

But for housing, and to a lesser degree for food stamps, there is the question of what is the value of the assistance.

If you move somebody into a unit that is costing the Government $4,000 a year in subsidy, if you say to them, look, how much are you willing to pay for this, they may say $1,200. But then in theory the benefit to them is only $1,200 and that is what you ought to be counting as income in other programs, not $4,000.

There have been studies of at what rate households value housing services. And it turns out better if they go out and shop for their own, which is not surprising, as opposed to presenting them with a unit and moving them into it. It ranges from 90 percent down to less than 50 percent, varies by type of program.

If you want to do it correctly, it is a fairly complicated arrangement.

Senator COHEN. But you cannot do what Senator Heinz is talking about until you arrive at a minimum standard of living; can you?

I mean you cannot take the housing, food, fuel, medicare, and medicaid programs and integrate them into this comprehensive test until you decide what the minimum is going to be.

Mr. STRUYK. That is right.

Senator COHEN. Otherwise, the equation will never work out if you say, well, we have so much for housing, but we have to reduce over here.

Mr. STRUYK. That is right. That is exactly the point.

So that, in the short term if you want to do anything, all you want to do is prevent it from working against what are, I think, widely accepted objectives, and as you provide more assistance to households with lower incomes, start there.

Senator COHEN. What you are suggesting is a graduated income tax schedule that we apply in our Tax Code be applied in the benefit schedule here as well. You cannot take 100 percent, apply it to the lower level, and say at the upper level everybody is equal.

Mr. STRUYK. Sure.

And similarly you have all the exemptions and deductions that we have in the Tax Code that will very similarly be brought over into the programs.

Senator HEINZ. Mr. Struyk, thank you very much.

Our next witness is Phil Abrams. Mr. Abrams, welcome. Please proceed.

STATEMENT OF PHILIP ABRAMS, WASHINGTON, D.C., GENERAL DEPUTY ASSISTANT SECRETARY-DEPUTY FEDERAL HOUSING COMMISSIONER, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. ABRAMS. Mr. Chairman, Senator Cohen, it is a pleasure to be here today representing the Department of Housing and Urban Development, the Office of Housing.

We have a formal statement which we have presented to you.

Senator HEINZ. Without objection, the entire statement will be inserted into the record at this point.

[The prepared statement of Mr. Abrams follows:]

PREPARED STATEMENT OF PHILIP ABRAMS

I am pleased to appear before the Senate Special Committee on Aging to discuss the effects of HUD's fiscal year 1981 legislation on the elderly.

A concern of the administration is that our elderly citizens have adequate and affordable housing. The Department's efforts to serve the elderly are characterized by concern to maintain and focus housing and services while achieving necessary budget savings. We believe that significant changes must be made in the way HUD's programs operate and in the ways they are funded if the Federal Government is to continue to assist the elderly and others who most need the support. Consequently, our legislative program proposes fundamental shifts in the policies previously followed by the Department and a major redirection of its programs. We enter this period of fiscal restraint and recognition of the limits of Government spending, confident that our fiscal year 1983 legislative proposals will result in improved housing and services for the elderly.

In developing our legislative proposals, we have been very conscious of the concerns and suggestions of those who are affected by our programs. With respect to the elderly, we were especially mindful of the recommendations of the 1981 White House Conference on Aging. Foremost among these recommendations was a call for greater involvement of the private sector, voluntary organizations, and the families of the elderly in the provision of adequate and affordable housing for older persons. The Conference delegates clearly recognized that the Federal Government cannot be expected to provide the full range of housing alternatives needed and desired by a growing elderly population. However, the delegates were equally clear in their call for continued Federal support for specially designed housing for the more frail elderly, and for alternative living arrangements, such as shared housing in HUD programs. Another message we heard coming from the participants in the White House Conference is that there is a diversity of activities to meet these needs. The elderly are not a monolithic group. There are elderly who have to pay too much of their income for shelter; there are elderly who do not have adequate shelter; there are elderly who need more than shelter; and there are elderly who do not need housing assistance. There are those who would like to remain homeowners and those who seek adequate and affordable rental units. These diverse concerns cannot possibly be satisfied by one program. These and other recommendations of the Conference helped to guide us in developing legislative proposals which we believe will best respond to those needs of the elderly that cannot be adequately addressed by the private sector.

Some of our proposals will directly affect the elderly, and I will elaborate on those in a few minutes. However, I must emphasize that the major problem facing the elderly today—not just in housing, but in all aspects of life—is the inflation which has resulted from years of runaway Government spending. We have met this problem head on by proposing to end the costliest of our programs and to reform the others so we can achieve major budget savings.

By bringing HUD's total spending under control, all of our proposals will contribute significantly to recovery of the economy. This will be the ultimate benefit for all older Americans, not just those who are direct recipients under our programs. A healthy and growing economy is the best program that can be offered for the elderly.

11-486 O - 82 - 4

While this administration is bringing spending under control, we are also proposing to continue playing an important role in housing for the low-income elderly. Over the next 3 years, we expect to increase the number of subsidized households from 3.3 to 3.8 million. We intend to modify and strengthen our programs so that we will be able to assist these households more efficiently and at less cost to the taxpayer.

The Department's fiscal year 1983 budget for low-income housing programs consists of the following major elements:

$1.8 billion of budget authority for public housing modernization under the comprehensive improvement assistance program contained in section 14 of the United States Housing Act of 1937;

10,000 units of section 8 new and substantial rehabilitation for use with the section 202 housing for the elderly or handicapped program;

106,615 units under the new modified section 8 existing housing assistance program broken down as follows: 60,615 certificates designated for the conversion of units now under the current section 8 existing housing program; 30,000 certificates estimated to be used in conjunction with the proposed new rental rehabilitation program; 10,000 certificates estimated to be used with the sale of HUD-held properties (property disposition); 5,000 certificates to be available to the tenants of those public housing units to be sold or demolished during the fiscal year, and 1,000 certificates to be available for those section 8 new construction contracts that are not renewed at the end of their 5-year contract term; and

The conversion of 5,000 units of section 23 leased housing to the present section 8 existing program.

The entire program for fiscal year 1983 is proposed to be funded through recaptured authority. No additional authority is being requested.

In order to provide low-income housing at a fraction of previous costs, the Department proposes to rely primarily in the new modified section 8 existing housing program. To insure that the modified certificate program works smoothly, a supporting rental rehabilitation program has also been proposed. I would like to discuss these programs briefly.

The new modified section 8 existing housing program draws upon HUD's experience with the experimental housing allowance program (EHAP), and would improve upon the present section 8 existing "finder's keeper's" program in several important respects. Instead of providing maximum rent ceilings based upon published fair market rents (FMR's), under the modifications a "payment standard" would be used, based on the rental cost in a particular area of modestly priced standard housing of various sizes and types. This standard would be used, in combination with appropriate data about family income, to determine the Federal subsidy amount to be provided. A family would be permitted to rent above the payment standard amount, but would not receive additional subsidy when it did so. At the same time, a family also would be permitted to rent below the payment standard amount (provided that the selected unit met prescribed housing quality standards) without reduction of the subsidy amount.

The program thus contains a "shopper's incentive" which serves both to contain the inflationary impact on rents that is experienced in the current program and, more importantly, to permit assisted families the similar range of choice between housing and other needs that they would exercise if utilizing only their own money.

Under the new program, initial eligibility would be limited to households with incomes at or below 50 percent of area median family income. About 42 percent of the elderly have incomes which fall within this limit. The proposed legislation would permit the Secretary to establish higher or lower limits if such variations are necessary because of unusually high or low family income.

Families would continue to receive assistance until such time as their income increased to the point where the subsidy was zero or until the end of the annual contributions contract term, whichever came first. However, an important exception is provided for families which were previously receiving assistance under the United States Housing Act of 1937. A family whose assistance is being converted to the new program from another section 8 program, or a family in public housing whose unit is scheduled to be demolished, could qualify for assistance under the new program even though family income was above 50 percent of median, based on the family's previous qualification for assistance under the act.

Based on past experience under the section 8 existing housing program and results from the experimental housing allowance program, we are confident that this modified section 8 existing housing program can be effectively utilized by the elderly and can meet many of their housing needs. For example, the elderly are, on average, better housed than other eligible groups, but have to pay a higher percentage

of their income for rent. Also, housing conditions of the elderly have improved. Only 16 percent have units with some physical problems and 9 percent have severely inadequate units. The committee and the Department both recognize, however, that there is a continuing problem of affordability. Forty-four percent of elderly renters pay more than 30 percent of their gross income for rent. The elderly are also less mobile. The modified section 8 existing housing certificate program will allow the elderly to reduce their rent burdens without requiring them to move to newly constructed units.

The best illustration of the success the elderly have had with the program can be seen by comparing the proportion of the elderly population actually served by the section 8 existing housing program with the total eligible elderly population. One-fourth of the eligible households are elderly, while one-third of the recipients are elderly. As of the end of fiscal year 1981, 40 percent of the units were occupied by elderly households.

The elderly should have no difficulty finding units which meet program housing requirements. The annual housing survey indicates that of the units already occupied by eligible households, about 45 percent meet the standards and an additional 35 percent would meet the standards with modest repairs.

The modified certificate program should benefit elderly participants in several ways. Under this approach, elderly persons who wish to remain in their present units can obtain assistance with their rent provided their units meet program standards, or they may use their certificates to obtain assistance in other units of their choice. This could include units located in developments planned especially for elderly persons. This approach would provide greater freedom of choice so that individuals can select their preferred living arrangements. I should also note that we intend to permit shared housing under the modified program, an arrangement which has received much support from elderly groups.

In addition, inflationary pressures on rents that have made rising housing costs a burden are expected to be reduced under this program by eliminating the fair market rent system that is used in the current section 8 program.

We believe that the modified certificate program will enable HUD to provide benefits for more low-income elderly citizens while contributing to the administration's economic recovery plan. As indicated earlier, the success of our efforts to control inflation and restore the economy to a sound basis will be of greatest benefit, in the long run, to older persons.

The rental rehabilitation program will answer the concern expressed by some that certificate assistance will be inadequate in some markets because affordable units will not be available to certificate holders. By providing State and local governments with the ability to produce modestly rehabilitated units where needed, the new initiative will minimize the number of localized rental unit shortages which may otherwise occur within some markets and neighborhoods.

A key feature of the new program is the separation of the rehabilitation and rental subsidies, and its reliance on private market forces to encourage owner participation and availability of rehabilitated units for very-low-income families. Unlike HUD's current section 8 moderate rehabilitation program, the rental rehabilitation program would not require property owners receiving assistance to agree to rent limitations and guaranteed low-income occupancy imposed by government in connection with the program. Instead, a program performance standard would encourage participating governments to select neighborhoods and properties in which 80 percent of initial after-rehabilitation market rents (i.e., rents without special program rent limits) will fall below the applicable payment standard for modified certificates, and thus be affordable to very-low-income tenants holding certificates. In short, the proposed rental rehabilitation program brings the free marketplace back into HUD's assisted housing programs.

I would now like to comment on some other proposals which would have a direct effect on the elderly.

HOUSING FOR THE ELDERLY (SECTION 202)

The administration recognizes the special needs involved in providing housing for the more frail elderly, needs which often can only be met through new construction. In fiscal year 1983, a budget level of $453 million in loan authority will enable us to make commitments for about 10,000 new units for the elderly or handicapped. About 10 percent of the units will be specifically for the nonelderly handicapped.

While this represents a reduced level from the 17,000-unit reservations we expect to make during fiscal year 1982, we anticipate no slackening in the pace at which 202 units are completed and made available for occupancy. We expect to see a total

of 20,000 new units made available for occupancy in fiscal year 1983 and nearly 100,000 new units for the elderly made available over the next 3 years.

MORTGAGE INSURANCE FOR MANUFACTURED HOME PARKS FOR THE ELDERLY

Recent surveys indicate that about one-third of all manufactured home units are occupied by elderly persons. We are proposing legislation that will permit the insurance of manufactured home parks designed exclusively for the elderly. The present law states that the section 207 mortgage insurance program is intended to facilitate the production of rental accommodations "suitable for family living" and prohibits discrimination "by reason of the fact that there are children in the family * * *." The proposed amendment would provide language making an exception with regard to manufactured home parks designed exclusively for the elderly.

ADJUSTMENTS IN TENANT RENT CONTRIBUTIONS

The Department's fiscal year 1983 program anticipates continuation of the phase-in of rent increases for subsidized tenants (from 25 to 30 percent of adjusted income) enacted last year. In addition we are proposing an overall 20-percent cap on annual rent increases attributable to legislative changes. These changes include the 1981 rent increase amendments, family contribution under the modified certificate program, and any change in Federal law dealing with what benefits can be counted as income for housing assistance purposes, e.g., food stamps. The 20-percent cap should ease any burden the increase would place on the elderly.

Also, lowering of the eligibility percentile from 80 to 50 percent of the median income should not adversely affect the elderly. First, elderly persons whose income falls between the 80 and 50 percent would not be evicted. Second, of the 25 million elderly persons, about 10 million have incomes below 50 percent of median, according to a recent survey, while only about 1.5 million elderly persons currently occupy HUD-assisted units.

It should be noted that the rent burden for elderly tenants who receive Federal assistance will continue to be significantly lower than for low-income tenants not assisted by HUD programs. Very-low-income tenants not assisted by HUD programs are currently paying an average of 50 percent of their income for housing. Even under the rent adjustments and cap, HUD assisted elderly tenants will be better off than unassisted households.

MODERNIZATION OF OBSOLETE PUBLIC HOUSING STOCK

We estimate that 46 percent of the units in public housing are occupied by elderly persons. We proposed to increase funding for the comprehensive improvement assistance or modernization program in fiscal year 1982 and 1983 by $100 million over fiscal year 1981. This will increase financial assistance to public housing agencies to improve the physical condition and upgrade the management and operations of existing public housing projects which provide shelter for over one-half million elderly persons.

EXTENSION OF FHA MORTGAGE INSURANCE PROGRAMS

An extension of the authority to provide insurance for nursing homes and intermediate care facilities under section 232, and for hospitals under section 242, is not being sought beyond the present September 30, 1982, expiration date. Nursing homes and intermediate care facilities are eligible for medicare and medicaid reimbursement. With regard to hospitals, many areas are already overheaded due to excess hospital facilities. Both sections 232 and 242 are low volume mortgage insurance programs ($151.8 million in FHA insurance written in fiscal year 1981). The private market has provided financing to many of the hospitals and necessary homes in existence and appears quite capable of financing the needs of such facilities in the absence of the sections 232 and 242 programs.

RESEARCH AUTHORIZATIONS

A number of areas of study which could have a favorable impact on the elderly would be undertaken as a part of the Department's research and technology program for which $20 million would be authorized in the fiscal year 1983 budget. Some of these are:

Strategies for increasing the efficiency and effectiveness of assisted housing programs through reforms of existing programs and evaluation of alternative programs;

Analysis of alternative housing finance mechanisms (such as alternative mortgage instruments);

Ways to reduce the component costs of housing (costs of development, building, financing, and operating);

Development and dissemination of better methods for community management and delivery of local government services;

Identification of successful neighborhood strategies; and

Issues related to fair and nondiscriminatory housing.

Before closing, I would like to comment on recent administrative actions taken by HUD which may have confused some elderly persons. These actions are clearing the section 202 "pipeline" of older, nonviable projects and imposing cost containment and moderate design requirements.

As part of its departmentwide efforts affecting all housing programs to reduce inflationary pressures, HUD has looked into reforms that would contain costs of the section 202 program. One of the problems that has added to the cost of this program has been the carrying of a large number of nonviable projects in the pipeline. Not only has this been costly in staff time used to monitor the projects but also it ties up funds that could be used for other projects. The Appropriations Act of 1982 authorized $20 million of recaptured section 202 funds to be used by HUD for additional projects, additional units in proposed projects, or other project revisions. Recognizing this, HUD issued instructions for cancellation of projects that are more than 2 years old and are at a standstill in the section 202 pipeline, thereby freeing some of the recaptured funds for other viable section 202 projects.

I would like to emphasize that it was never intended to cut off any project that showed positive movement toward start of construction.

Another problem was that excessive and unnecessary amenities were being built into 202 projects. Also, some projects were being overdesigned for the needs of the elderly. In November 1981, the Department issued instructions to correct these problems. We believe that the cost containment and modest design requirements which have been imposed for the sections 8 and 202 programs will have a positive effect on the section 202 program, by instituting certain limitations which will reduce costs and thereby permit more housing units to be constructed within limited available resources.

In conclusion, we believe that the program changes and new directions being undertaken through HUD's fiscal year 1983 legislative program provide important advances for our Nation's elderly persons and propose steps necessary to conserve Federal resources. They direct resources toward people and not toward structures and, above all, they are fair and equitable.

Mr. ABRAMS. You seem to be aware of the statement. I would not want to drag out the proceedings by reading it. I would either summarize it——

Senator HEINZ. Please do whatever comes naturally.

Senator COHEN. I would like an explanation. I have a blank sheet in the middle.

Mr. ABRAMS. Those are some of my inner thoughts.

The administration is concerned about housing for the elderly citizens, particularly the problem which is the greatest for elderly citizens—the affordability of housing. And our 1983 legislative proposals are directed toward answering that specific problem which elderly citizens, as well as other low-income citizens, are experiencing.

The 1981 White House Conference on Aging reached similar conclusions, calling for greater involvement of the private sector in helping to solve the problems of our families and elderly in low-income situations, particularly drawing attention to the needs of frail elderly, and pointing out that the elderly are not a monolithic group.

I think our programs and our proposals for 1983 reflect a kind of diversity that echoes what the White House Conference on Aging found.

But basic to the discussion of the level of subsidized housing and the commitment to the elderly is the basic administration policy which is embodied in the budget and the legislative proposals. And that is that there will be a rise from 3.4 million HUD-assisted households this year to 3.8 million assisted households by the end of 1985, and that that would serve as a cap on the maximum number of HUD-assisted households, that the country can afford to include in its budget to meet its responsibility to low-income families as well as elderly. And our mission is to try to find more efficient ways of providing for those 3.8 million households.

Senator COHEN. Is it to meet its responsibilities or is it the amount we can afford under the budget? There is a difference.

Mr. ABRAMS. I said that the policy decision of a cap of 3.8 million households is a decision based on what we can afford to do for low-income families.

Senator COHEN. But you start with the budget figure. That is the figure you have to work with. This is what you decide you can do to get from 3.4 to 3.8 million.

But you have to start with your point. Your point is you are given so much money to work with and this is what you think you can achieve by making these modifications.

Mr. ABRAMS. It is certainly elements of both. And I am not saying we are not driven by budgets because we are driven by budgets and by what resources are available for housing, as well as other national priorities.

In the legislative package there is $1.8 billion in 1983 for modernization of public housing. And many elderly citizens, a considerable number of elderly citizens, occupy public housing, and many of those units are not in safe and decent condition. And we are concerned and are trying to direct our resources with regard to public housing toward modernization and bringing what we already have up to standards.

We include as the only new production program for 1983 the section 202 program at the level of 10,000 units, supported by loan authority and section 8 authority as a recognition of the fact that there are specific needs, particularly for the frail elderly, handicapped, and disabled low-income people that cannot be met by the private sector.

But the principal policy for meeting housing affordability, as you have noted, and as your previous witness testified, is reliance on the modified section 8 existing certificate. And that, combined with the rental rehabilitation program, which would bring 30,000 substandard units up to safe and decent housing conditions and provide them as a resource for certificate holders, is the basis of the administration's program for 1983.

The certificate is the most efficient way of providing affordability assistance. In fact, we can provide for three families, or three elderly households, for the cost of every new unit that has been produced under the traditional section 8 program over the last 4 years of section 8 construction.

We have proposed modifications to that certificate program to make it more cost-effective and to draw upon the results of the experimental housing allowance program that HUD has conducted for the past 10 years. Those changes would go from a fair market

rent system, which in most markets sets a rent higher than is actually paid in the private sector——

Senator HEINZ. What percentile of the distribution of rents is it set at?

Mr. ABRAMS. The current existing fair market rent is set at the 50th percentile of recent movers, excluding new units.

Senator HEINZ. All right. Thank you.

Mr. ABRAMS. The proposal for the payment standard would be the 40th percentile of all existing units, not just recent movers.

Senator HEINZ. Well, under medicare we reimburse doctors and hospitals under a reasonable cost formula that is in every event limited to something like the 80th percentile of the measure of cost, not the 50th, not the 40th.

How do we justify cutting the reimbursement here from the 50th percentile to the 40th percentile when we are reimbursing physicians making $250,000 a year up to the 80th percentile?

Mr. ABRAMS. Well, I think that while you can justify and you certainly can make the argument in the medical analysis——

Senator HEINZ. You say you cannot justify it?

Mr. ABRAMS. No; I am saying in the medical analogy, you know, I do not think——

Senator HEINZ. It is Federal money in both cases.

Mr. ABRAMS. In the medical analogy I do not believe anybody is saying that someone who has an appendix to be removed should get less quality medical care. However, in terms of housing, people who earn higher incomes are entitled to a better quality of housing.

This is one thing I did not note about the payment standard. It is the 40th percentile of housing units that meet our safe and decent housing standards. So, we have excluded all of the dilapidated housing or housing which is substandard. And it is reasonable to assume that a family at the 50th percentile of income or lower is going to find housing that is acceptable at the 40th percentile of the rent range, including luxury units all the way down to the least expensive unit.

Senator HEINZ. You may have gotten the AMA mad at you by your last statement because all doctors who pass their medical residencies are thought to be equally qualified to take out your appendix. And the question, therefore, is not whether you are getting a second-rate operation. The medical profession is a profession and everybody comes up to a professional standard.

So, I really do not understand what you just said.

Senator COHEN. I disagree with that. I think that all doctors, lawyers, and politicians are not created equal, even though we occupy the same position in our respective fields. I think that there are doctors that have passed their boards and their residency who leave sponges, some leave tools of their trade inside the abdomens of their patients on a regular basis.

Senator HEINZ. But it has nothing to do with the rate at which they are paid. That is the point.

Senator COHEN. Well, we are all paid the same.

Senator HEINZ. That is the problem.

But I agree with everything that you just said, except that the person who leaves the sponge in can be making $250,000 or $50,000

being reimbursed at $100 an operation or $5,000 an operation. So, I think the Senator's point is interesting, but I do not think that it really changes what I am trying to pin Mr. Abrams down on, because we are really talking about fee for service. It is the same service. There are people who command a high price who make mistakes. There are people who command a low price who make mistakes.

I gather you do not really have an answer to that question.

Mr. ABRAMS. Well, I am not sure. I would defer to my colleagues at HHS. And I do not want to get into medical arguments because I have in-laws who practice medicine and they might get upset with me.

I think the private sector works better in housing perhaps, if your analogy is correct, because low-income families are able to make rational judgments about housing. They are able to judge whether a unit is a luxury unit, whether it meets their particular tastes, their particular needs, and is in a community that they want. And they are used to dealing in housing. It is one of the basic necessities of life. And they are able to make those judgments.

They might not be able to judge between the best surgeon and a mediocre surgeon, but I have confidence, and our studies show, that low-income families are good judges of housing and are able to make those kinds of decisions.

That is why we have built many factors into the modifications of the section 8 certificate that give the lower income family more decisionmaking power and more of an input into how much of their income they desire to spend on shelter.

The shopping incentive allows them to decide whether shelter is important, and they want to spend more than the standard rent set by HUD or, if shelter is not that important, if they want to put money aside for education, or for whatever else they deem a priority, they are able to save money by renting a unit below the payment standard and keeping the savings. And we believe the experimental housing allowance program, showed that low-income families can make reasonable judgments. And perhaps we do not give them enough credit for being masters of their own destiny when we give them affordability assistance.

Senator COHEN. A prior witness testified that the real problem is we are not expanding the housing available.

For example, in one small town in Maine, Presque Isle, they have a 1.5-percent vacancy rate.

Tell me what choice those people have. There is none.

Mr. ABRAMS. Of course, we are relying on the HUD study, plus the Rand Corp. study, which says basically we do not have a housing crisis and that there are enough housing units, on an aggregate, throughout the country to house Americans.

Senator COHEN. You have a 20-year waiting list.

Mr. ABRAMS. The 20-year waiting list is a phenomenon of the fact that a low-income family pays a much lower percentage of its income to live in public housing than in private sector housing. And I think if you ask that family if they would accept a certificate so they could stay in private sector housing instead of public housing, your waiting list would go down appreciably.

But I really think it is an affordability problem on an aggregate. But that does not mean that Presque Isle does not have a shortage of housing, because although aggregate studies show that on a nationwide basis there is enough housing, no one would say that within every market and within every neighborhood, there are not shortages of housing. And in a community the size of Presque Isle, it is really a neighborhood that you are talking about.

So, to the extent that there is dilapidated housing stock in those communities, one of our proposals, the rental rehabilitation program, would provide through grants distributed through the CDBG-type network to local communities, a $10,000 capital improvement in units. This will take most units that are dilapidated and bring them up to safe and decent housing standards and make them a resource for low-income families.

For communities that do not have dilapidated housing and have a shortage of housing, there are several things in the legislative package which would assist the private sector to provide housing that is demand-oriented as opposed to the section 8 program which was syndication-oriented. However, most of those programs are going to work when interest rates come down and when the private sector can begin providing housing for all Americans again that they can afford.

Senator COHEN. Any prediction on that, Mr. Abrams?

Mr. ABRAMS. No.

I did that once and then I had to go before the same committee 6 months later and I was reminded of my earlier predictions. So, I no longer predict interest rate changes.

Senator COHEN. You mentioned you are going to go from 3.4 to 3.8 million assisted households in 1985.

Does that include construction programs or programs that are already in the pipeline?

We are running about 2 to 3 years behind.

Mr. ABRAMS. Certainly.

The pipeline is 700,000 units. So, the 3.8 million anticipates that there is going to be fallout from the pipeline to reach the 3.8 million.

Senator COHEN. So, those are programs already in the works rather than anything coming under this or much coming under this new program.

Mr. ABRAMS. Well, they are appropriated and allocated, but many of them are really phantom projects which do not exist anymore and which will not be built because sites do not exist or the developers have disappeared.

Senator COHEN. Gone out of business.

Mr. ABRAMS. Gone out of business.

So the 3.8 million anticipates that 400,000 out of the pipeline will be built and that from that point on the policy decision is the amount of certificates that are provided to help low-income families and elderly meet their affordability problems. This becomes a function of how many people graduate from subsidy, how many subsidy programs expire, and what level of assisted households we will have for the following year. Subtracted from 3.8 million, this would determine the administration's recommendation on how

11-486 O - 82 - 5

much would be appropriated for certificates on a long-term basis, if you accept that policy decision.

Senator HEINZ. Mr. Abrams, I do not wish to interrupt you in the presentation of your statement.

Mr. ABRAMS. I am flexible.

Senator HEINZ. You can either proceed or if there are any special points you want to make, you may do that. Please proceed as you wish. We do not wish to be discourteous to you in any way.

Mr. ABRAMS. No; not at all. And this is perfectly acceptable to me. If you want to interrupt as I go along, I will be glad to take your points as we reach them.

One of the particular attributes of the certificate which convinces me that it should be relied upon for solving affordability problems is that the people who receive the certificates actually graduate off of subsidy. There is an 87 percent turnover in the 5 year life of the certificate. And not so much with the elderly, but with families, they actually evolve out of subsidy. And it is a phenomenon that we cannot pin down in terms of why it happens, but it does happen, and it does not happen in public housing or in section 8 new construction programs. And I think that is a very constructive part of it.

In terms of the elderly, particularly the young elderly, what is most attractive about it is that they do not have to live in an elderly housing complex. Many elderly people do not want to live in housing built exclusively for the elderly. They want to live in a family housing setting with children and be a part of society and not be set off in their own building.

I spoke to a group in my hometown about a month ago and found that particular feature of certificates received the warmest reception because there are many of the young elderly who do not want to be put into elderly only buildings.

But for the elderly who are not in a position to move, what is attractive is that the certificate can be an in-place subsidy. If the unit that the elderly household is in already meets safe and decent standards, or the landlord can bring it up to safe and decent standards for a couple of hundred dollars, the studies show that the elderly will stay where they are, not be forced to move, and will receive the subsidy in place.

For those, and many other reasons, the certificate is the program that the administration is relying upon principally for affordability assistance.

As far as the section 202 program, I know that you are interested in some of the specifics of the changes that we have made. And I think what we have done in 1982 is to make the program more effective.

We would like to bring the cost per unit down to the point where it is roughly equivalent to the cost per unit of a section 8 profit motivated sponsor's elderly housing unit.

There is somewhere between a $10,000 to $15,000 spread between the way the section 202 program had been run and the cost per unit produced in the other program.

So, we have made changes which will bring the cost per unit down. And hopefully with the loan authority and the section 8 authority——

Senator COHEN. How do you do that?

Mr. ABRAMS. Pardon me?

Senator COHEN. What do you do to achieve those reductions?

Mr. ABRAMS. Well, you do many things. You rely more on efficiencies than you do on two-bedroom apartments, one-bedroom apartments. You limit unit size. You limit the amount of amenities, including the building. You start to place emphasis on the competition for the 17,000 units that we have in 1982. We will emphasize to a greater degree the cost per unit, the cost-effectiveness of the proposal. You eliminate some unnecessary amenities, like balconies on units, dishwashers, which are not necessary to provide safe and decent new housing for low-income elderly families. Plus some administrative changes requiring competitive bidding for the construction contracts.

Senator COHEN. That is required by law now; is it not?

Mr. ABRAMS. No; it is not.

Under the section 202 program the nonprofit sponsor can select any contractor as long as the cost per unit does not exceed the maximum limits that HUD will allow. And it is my personal experience that that is not a cost-effective way for the nonprofits to operate.

All in all, we are providing necessary incentives to make the program more cost-effective. And hopefully, we will be able to produce more than 17,000 units with the dollars that were funded in 1982. If we are, then we will be able to help more elderly households, which should be the bottom line in terms of running an effective program.

We have also proposed in the legislative package to allow for the insurance of manufactured home parks that are restricted to use of the elderly. The current statute says that you cannot discriminate in the insurance program and insure a project which is exclusively for elderly. You cannot discriminate against families and others.

Yet the phenomenon in this country is that many mobile home parks are exclusively for the elderly. And we would like to be able to insure properties in those types of settings.

There are tenant rent contribution increases. I will not try to restate Senator Heinz' accurate statement of how we feel about food stamps. It is income like any other income. And the administration feels that it should be counted.

Senator HEINZ. Do you have a number in terms of the people who are assisted housing residents who are also receiving food stamps?

Mr. ABRAMS. I do not have it. But it is a substantial number, particularly among families.

As far as the elderly, I am told that only one-third of the elderly households in subsidized housing also get food stamps.

Senator HEINZ. Approximately one-third.

Now, are there 1.2 million elderly in subsidized housing?

Mr. ABRAMS. Yes; about 40 percent of 3.4 million.

But the elderly, for whatever reason, do not participate in the food stamp program.

Senator HEINZ. For the 400,000 though that do participate in the food stamp program, how do you answer the criticism that for

those 400,000, the poorest are going to be hurt the most, because they have the largest amount of food stamps?

Mr. ABRAMS. I think that you have to look upon it in terms of the inequity that is created by the juxtaposition of SSI or AFDC and food stamps. In the areas where you have high welfare benefits, like Boston, where the family might receive $500 a month, they would only receive $50 to $75 in food stamps. When you go to San Antonio, where the welfare benefits are $125 a month, the food stamp benefits would be $200 a month. Now, the family in Boston is paying much more rent for their HUD-subsidized housing than the family in Texas, simply because you have not counted all income. And the food stamp income is in the private sector; to those families that do not benefit from HUD-subsidized housing and are paying sometimes 50 to 80 percent of their income for shelter, the food stamp income is income, and is calculated by them in determining what they can afford for shelter.

Senator HEINZ. There is no doubt there are tremendous differences among States, in the way States and Federal poverty programs interact and the benefits delivered. However, it seems to me you still have to answer the question. Is this proposal going to hurt the poorer families within that State, as opposed to the more well-to-do poor families within that State? Is my information accurate?

Mr. ABRAMS. It is not accurate in terms of the elderly because with the elderly there seems to be an aversion to food stamps.

Senator COHEN. One out of three in the State of Maine. That is not an aversion to food stamps.

Mr. ABRAMS. Yes; but in HUD's subsidized housing, one out of three families, elderly households, are accepting food stamps, and they are all eligible, or they would not, under the 50-percent standard, be in the HUD-subsidized housing.

Senator HEINZ. But, presumably those are the people who need food stamps the most. They are probably the people who really are the poorest.

Mr. ABRAMS. I think it is more subjective than that. Senator. I think elderly households have an aversion; some of them have an aversion to collecting food stamps because it is a conscious act of asking for assistance, whereas subsidized housing is available, and they apply, and they are taken off a list.

So, you know, the question can be turned around: Should the family that is too proud, or that does not want to accept food stamps, have to pay the same rent as the family that is getting additional assistance through food stamps from the Agriculture Department?

I do not pretend that it is a simple question and I certainly do not assume that there is unanimity in the Congress, or in the country, about counting food stamps as income. But the fact is that it is income for the family, much like dollar income from welfare or SSI benefits. And the administration's proposal is a rational proposal to count all income as being eligible for calculation as income.

Senator COHEN. Shall we count fuel assistance as well?

Mr. ABRAMS. I do not think it has been specifically discussed.

Senator COHEN. The problem that I have is how we single people out. You say for housing, well, in determining whether or not you are going to qualify for this sort of subsidy, we have to count your

food stamps. So, you have food combined with shelter, at least to determine whether you are going to get that shelter.

But how can you separate that out from fuel subsidies or medicare or medicaid?

How do we go at this on a piecemeal basis to deal with the problem?

I mean, is that a fair assumption? You have food assistance, therefore, your income is higher. Therefore, you get less of a subsidy.

Can you do that without taking into account all the other factors as well?

Mr. ABRAMS. Well, I think you could probably make the same case for counting energy assistance as well. But again, there you have more of a regional problem than you do with the food stamps, which is the universal problem.

I am really not able to answer your question because I am not sure how the low-income energy assistance program works.

Senator HEINZ. Mr. Abrams, correct me if I am wrong.

The low-income energy assistance program is very important to States like Maine and Pennsylvania, my home State. My understanding is that in public housing, utilities are included for the recipient of that assistance. Thus, there would be a relatively modest to nonexistent effect of counting low-energy income assistance with respect only to those people who live in publicly assisted housing.

Would that not be the case or is that inaccurate?

Mr. ABRAMS. It is accurate in terms of public housing.

Senator HEINZ. I am just talking about public housing.

Mr. ABRAMS. Yes.

Senator HEINZ. Now, what about section 8?

Mr. ABRAMS. On certificates, most of the certificate holders pay their own utilities.

Senator HEINZ. So, it would have a substantial effect on them.

Mr. ABRAMS. It would have a substantial effect on certificate holders.

Senator HEINZ. All right.

Let me ask you about one of your regulatory changes, that I believe is being drafted, that would cap medical deductions at around $300. Are you going to propose such a regulation?

Mr. ABRAMS. The regulation on deductions is still being debated within the administration.

Senator HEINZ. But you are thinking of capping medical deductions?

Mr. ABRAMS. The proposal was to eliminate medical deductions and have for elderly households one $300 deduction. And the calculation is that that covers in most instances what the medical deductions were previously.

Senator HEINZ. So, if somebody had $750 in medical expenses, which I am told is the average out-of-pocket amount for an elderly person, excluding premium costs for part B medicare and supplemental insurance, $450 of these out-of-pocket expenses would not be deductible. Is that right?

Mr. ABRAMS. If those figures are accurate, that is correct, yes.

Senator HEINZ. If my $750 figure is accurate, what consideration has been given to how that standard deduction or cap, whatever it

turns out to be, would affect the ability of the elderly to absorb that kind of change?

Mr. ABRAMS. Well, our data indicated that the costs were closer to $300 and that the $300 covered most——

Senator HEINZ. Could we have your analysis?

Mr. ABRAMS. I would be happy to submit that for the record.

Senator HEINZ. We would like to see that.

[Subsequent to the hearing, Mr. Abrams supplied the following information:]

Question. How was the $300 deduction for elderly heads of household determined? Isn't the actual medical deduction closer to $750 than $300?

Answer. A flat $300 deduction for all elderly and handicapped heads of household was proposed in lieu of other deductions (specifically, 5 percent for families, and 10 percent for elderly public housing tenants, medical expenses in excess of 3 percent of income, and child care expenses) to simplify the net income definition and to eliminate complexities and inequities in the current system. While the $300 amount exceeds the average deduction taken by elderly section 8 households in 1979 by about $100, it redistributes the benefit toward very low-income elderly households. In the following table, section 8 elderly tenants in the 0 to 20 percent of median income range took medical deductions averaging $82 per year. The $300 deduction offsets the increase in their rent contribution. Under the current deduction schedule at the 30-percent contribution rate, average tenant rents will increase 20 percent over the 1979 contribution. However, the $300 allowance generates a rent increase of only 8.1 percent. In fact, the deduction more than fully offsets the medical deduction except in the highest income group, 50+ percent, where the average medical deduction in 1979 was $367.

SEC. 8 ELDERLY: TENANT INCOMES AND RENTS UNDER EXISTING AND PROPOSED PROCEDURES

Percent of median incomes	1979			30 percent net/10 percent gross			
				Current deductions		Proposed deductions [3]	
	Gross income	Average medical allowance [1]	Average contribution	Average contribution [2]	Percent change	Average contribution	Percent change
0 to 20	$2,294	$82	$545	$654	20	$589	8.1
21 to 30	3,314	153	787	945	20	900	14.4
31 to 50	5,065	247	1,202	1,442	20	1,425	18.6
51+	8,075	367	1,922	2,306	20	2,324	20.9
Total	4,189	197	995	1,194	20	1,161	16.7

[1] 25 percent of net/5 percent of gross.
[2] 30 percent of net/10 percent of gross.
[3] $400 deduction/minor; $300 deduction/elderly head of household.

Senator HEINZ. One other question.

In testimony presented to the Congress, Secretary Pierce stated that section 202 sponsors would be permitted to select contractors through a competitive bidding process. I understand that draft regulations would mandate the competitive bidding process. I would like to know the Department's position on that issue and what the rationale is for it.

Mr. ABRAMS. Well, that is correct. We will mandate competitive bidding.

The rationale is that many nonprofit sponsors have taken the maximum amount of dollars available from HUD and then asked people to bid and the bidding process consists of a "yes" or "no." You know, will you build this for $40,000 a unit? And we think that responsible contractors who could build a building at a lower

price are excluded from the process and could be included by the competitive bidding process.

Senator HEINZ. Is there any evidence, based on objective studies, that shows that the cost per unit of the system that is now used for section 202, which does not mandate competitive bidding, is higher than in those instances where competitive bidding has been mandated?

Mr. ABRAMS. The only program we have that mandates competitive bidding is public housing. And, in fact, the cost per unit has been coming down in many cases below what we set as prototype costs for public housing. Their problem is in soft costs, land, and other things. But the bricks-and-mortar costs have been coming down in public housing on publicly bid projects, whereas there has not been any reduction on section 202. In fact, section 202 was in danger of becoming the most expensive production program that we had for low-income elderly families.

Senator HEINZ. Well, per square foot they are going to be a bit more expensive because they are especially designed for the elderly, the handicapped, the frail elderly, and there are some design requirements that not everybody agrees are cost-effective, but that necessarily are going to cost initially more.

Mr. ABRAMS. We have the same requirements for elderly housing built under the regular section 8 program. And about 40 to 45 percent of the new section 8 housing, other than the section 202 housing, is also built for the elderly and it is built to the same standard.

Senator HEINZ. To move along, could you share with us your statistics so that we can ascertain that?

Mr. ABRAMS. Yes.

[Subsequent to the hearing, Mr. Abrams supplied the following information:]

The statistics you requested are shown in a study soon to be completed by HUD. We will provide the committee a copy of this study when it is available.

Senator COHEN. Mr. Chairman, could I just ask a followup question on that?

Senator HEINZ. Yes.

Senator COHEN. In other words, what you are going to do is say, "Here is the design of the project; now give me a price," to all the competitive bidders.

Mr. ABRAMS. Right.

Senator COHEN. Rather than turning it over to a local nonprofit sponsoring group saying you have $2 million or $1 million, go out and get some building up to that price.

Mr. ABRAMS. The nonprofit sponsor will continue to submit the site and schematic plans and we will make an award. They will finish their plans. The architect will design the plans within the budget. And when those plans are completed, they will take competitive bids and award to the lowest responsible bidder.

Senator COHEN. But the contractor is not getting a price by saying: Can you build this for $40,000 per unit? That is not going to happen under your proposal.

Mr. ABRAMS. Not in the future. Right.

Senator HEINZ. I understand that HUD recently took an unusual action in approving the prepayment of a section 202 loan in California. Is that right?

Mr. ABRAMS. That is correct. Right.

Senator HEINZ. What was your rationale in that case?

Mr. ABRAMS. In that particular case the sponsor came forward. It was an old section 202 project without section 8 support. Some of the units were supported by rent supplement and some by loan management set-aside units, as opposed to section 8.

We have a policy—and we have recommended it to you, and I believe there is agreement—that we should convert all of the rent supplement units because they were not self-amending and they have serious shortfalls every year. And the absence of amendments built into the budget authority provides problems for the 173,000 rent supplement units that are there.

This particular sponsor asked to purchase their mortgage in exchange for which they guaranteed life tenancy for all of the residents of the building. And on that basis the Department accepted their offer to purchase their mortgage.

Senator HEINZ. In the case of this particular action, I have the documentation and your letter. The tenant guarantees look fairly modest. But let me put to you the harder question.

If you learned that the California sponsor in turn did convert this project into a condominium, what action would you take?

Mr. ABRAMS. Well, if he proposed to turn it into a condominium in accordance with our agreement, we would not take any action. If he started evicting the tenants who had life tenancy, we would have a civil action against him for breach of contract.

Senator HEINZ. Do you anticipate that you will be accepting more prepayments?

Mr. ABRAMS. I do not anticipate a great rush, and we are certainly not going to set a policy and encourage it. But on a case-by-case basis, if it is sensible in the interest of the tenants, as well as the Government, in terms of how many years are left on the mortgage, the restrictions to low-income families, what assurances we get from the mortgagor in terms of how they are going to take care of the elderly who are already there, then we will evaluate them on an individual basis.

I do not expect it to produce an epidemic of offers to us.

Senator HEINZ. One last question before I yield to Senator Cohen.

HUD has proposed cutting the section 202 program back to 10,000 units. Most people believe it has been an excellent program.

I introduced a bill earlier this week with a number of Senate cosponsors maintaining the level at 20,000 units.

Why has HUD proposed to cut back?

Mr. ABRAMS. Because of budget constraints.

Senator HEINZ. But you think the program is a good program?

Mr. ABRAMS. I think that the program is necessary for the handicapped and the more frail elderly particularly. However, it is difficult to limit the program to frail elderly because then you get close to being a nursing home and we are not looking for that.

We think it is a good program.

The Secretary fought hard for the program and the administration agreed that it was an important program and it should be maintained.

Senator HEINZ. Did Secretary Pierce get everything he asked for?

Mr. ABRAMS. Not for all housing programs.

Senator HEINZ. How much did he ask for?

Mr. ABRAMS. On this particular program?

Senator HEINZ. Yes.

Mr. ABRAMS. I believe he did get everything he asked for on this particular program.

Senator HEINZ. He only asked for 10,000.

Mr. ABRAMS. I believe so. That is my best recollection.

As I started out my testimony by saying, there was a conscious policy decision to limit the number of households that could be assisted, and within that number to try and do the most we can within the budget constraints that are really causing more problems for the elderly than we can solve through housing programs.

Senator HEINZ. I would agree with that.

Senator Cohen?

Senator COHEN. Just a couple of questions.

I still do not understand how you start off by saying that we have arrived at a figure as to how many people we should serve by Government assistance, to go from 3.4 to 3.8 million.

How do you come up with a figure that 3.8 million is enough?

Is that really the way we go about determining Federal assistance to programs? Put an arbitrary figure and then budget to that?

You know about the graying of America. Chances are that older people are growing poorer. Statistically I think that will be borne out. They can afford to pay less for housing. And yet we find the Government participation is going to be reduced over the years in the coming years; the initiative put back in the private sector. The private sector says we cannot build anything at 16-percent interest rates and what we say is, well, interest rates are going to come down maybe.

But in the meantime what is happening to those people out there?

We say 3.8 million is enough. I mean is that how we formulate policy?

Mr. ABRAMS. Well, I think in this particular case that conscious policy decision was made and the other policy decisions fall out from that decision. And, of course, the Congress should look very closely at that basic policy because everything does follow. The whole program is logical only if you accept that premise.

Senator COHEN. Well, do you disagree with the fact that we are growing older as a society?

Mr. ABRAMS. Absolutely not.

Senator COHEN. More people are living longer, well beyond the ages of 62 and 65.

Do you disagree with the fact that the statistics show that the trend will probably continue that the older people are going to be among the poorer of our society? Right?

Mr. ABRAMS. That is correct.

Senator COHEN. So, those two factors we can all agree on. And that they are probably going to be in need of more assistance than the younger people of our society. Right?

Mr. ABRAMS. It would seem so. Yes.

Senator COHEN. Now, how do you come to a conclusion then that 3.8 million will be enough? That is the target we start out with.

Mr. ABRAMS. All of the questions which you asked me and I agreed to would lead you to believe that the elderly should get a greater share of the 3.8 million.

Senator COHEN. Forget about the 3.8 million. I do not want to talk about the 3.8 million. I want to talk about what our population is; what the projections are for the future over the next 20, 30, 40, or 50 years, as we have to deal with our social security issues as well.

We know that the population is going to get older and more people will be older than younger at some point in time and that they are going to be poorer by virtue of the fact that their income is going to be reduced, with fewer earning opportunities, and so forth.

So, we have a graying population.

What I want to know is, how you get the 3.8 million?

If you have a society that is getting older and a portion of that society is going to be poorer, tell me how we separate out and say, but, nonetheless, we have a 3.8-million limitation here.

I do not follow the connection as to how you get the 3.8 million.

I would agree with you that if you got the 3.8 million, then the majority of that, if we can do it, ought to go to the older people. But I do not know how we get the 3.8 million.

What computations or what calculations lead us to the conclusion that you should only have 3.8 million assisted units?

Mr. ABRAMS. With the 3.8-million figure, you have a chicken and egg situation. You are looking at demand. The 3.8-million figure is a policy decision based on——

Senator COHEN. On what?

Mr. ABRAMS. On an assumption of what the country can afford to provide in housing assistance to low-income families, including the elderly.

Senator COHEN. How did we get there? I mean, tell me what factors did you take into account to say that that is what we can afford to pay.

Mr. ABRAMS. The 3.8-million figure is reached by taking the number of occupied households at the end of 1981, which was 3.4 million, plus the estimate that there are 400,000 units in the pipeline which are going to be built out of previous appropriations. That brings you to the 3.8 million and that becomes a cap.

Senator COHEN. But it had nothing to do with the projections as far as the demographics of our society; did it?

Mr. ABRAMS. It was not based on the demographic projections, but on previous program experience and future pipeline commitments.

Senator COHEN. You took as a baseline where we are today. You said that you applied a percentage. You took what we have in the pipeline and said we can hit this figure over the next few years and that is it. Right?

Mr. ABRAMS. That is right.

Senator COHEN. There is really no relationship to what the changing needs of the society is going to be, is there?

Mr. ABRAMS. On the other hand, the plight of the elderly and all poor families is lessened by the recent drop in the inflation rate and hopefully future drops, which will be followed by low interest rates and allow for more private sector housing production.

Senator COHEN. Well, I hope you are right. But we have seen no indication of that yet. We have had low inflation rates for some time now and we had some good news again just today in terms of the declining inflation rate. But we have not seen a corresponding drop in interest.

Mr. ABRAMS. Maybe when the people who set interest rates have confidence that the system is not going to reverse itself, then the interest rates will come down.

But I really would prefer testifying on housing issues, not economic issues.

Senator COHEN. All right.

One other question.

I think you used the words that those people who were using the certificate system now evolve out of the subsidy.

Do they evolve out of their homes and move and change and not get back on the system?

To what do you attribute that?

Mr. ABRAMS. I do not have a satisfactory answer for you. I have asked the question for 8 or 9 months. We are trying to find out what it is, what unique quality there is of the certificate program that does provide to people to graduate from subsidy.

I do not know what the answer is. I wish I knew.

Senator COHEN. Do you know whether or not it is simply they changed jobs or do they find a new location? Does that account for it? And they then go off that.

Mr. ABRAMS. I really do not have a good answer for you. When I find it I will get back to you. Because it is either a deceiving statistic, which is possible, or it has elements of solution of a lot of our housing affordability problems.

Senator COHEN. I see our first witness shaking his head at the back of the room.

Would you care to say something?

I am going to let you go. I have held you captive here, Mr. Struyk.

Did you wish to comment?

Mr. STRUYK. The only comment I would make is the turnover rate is dramatically different by household type. The husband and wife households who use the housing allowance as sort of a supplemental unemployment compensation accounted for the majority of the short term enrolled. And that was a program that was based on an 80 percent of median cutoff essentially. The program we have before us is a 50 percent of median and it will have presumably fairly dramatically different effects on turnover.

Also I would argue that if you are getting that kind of turnover, it suggests that you are doing a bad job at targeting your resources to households that are most in need. Presumably those who are most in need are those who need permanent support, of whom the

elderly are a large share. You do not want to get, just for administrative cost reasons, if nothing else, households moving in and out of the program every 6 months.

Senator COHEN. That is all I have, Mr. Chairman.

Senator HEINZ. All right.

Mr. Abrams, I have a few written questions I will submit to you. But we want to thank you for appearing here.

Do you have any last words?

Mr. ABRAMS. Thank you very much, sir.

Senator HEINZ. Thank you for your time and patience. We appreciate it.

[Subsequent to the hearing, Senator Heinz submitted questions to Mr. Abrams. Those questions and Mr. Abrams' response follow:]

Question 1. How many elderly households would have their rents increased if food stamps are counted as income in determining tenant rent contributions in assisted housing? What would the average amount of increase be for 1983? For future years?

Answer. Approximately 30 percent of the elderly tenants receive food stamp benefits. Food stamp benefits for the elderly are smaller than those for other families because of the relatively high guaranteed minimum income provided by SSI benefits. Consequently, elderly tenants will not be seriously impacted by the proposal to count food stamps as income. In fact, the average rent increase after full phase-in would be slightly less than $10 per month. The impact of the food stamps measure, of itself, in fiscal year 1983 will be much smaller.

Question 2. Are there any data to suggest that competitive bidding will reduce section 202 unit costs? (If so, please provide.)

Answer. The following aspects of competitive bidding will reduce section 202 unit costs:

Multiple review of the plans and specifications by several contractors assures that any deficiencies will be noted for correction;

Builders will have an incentive to pass along savings in material costs or construction techniques to the borrower, in order to obtain a competitive position for selection;

Attracts more builders into the program, increasing competition and lowering costs;

Eliminates necessity for contractor to cost certify, resulting in savings in time and money for borrower and Government;

Consistent with method used in original section 202 program, which was extremely cost-effective.

Question 3. Is HUD considering an expansion of eligibility for section 202 loan funds to limited profit sponsors? If so, why?

Answer. HUD is not considering opening the section 202 program to profit-motivated sponsors at present. However, past considerations to allow such developers to participate in the program have suggested the following possible benefits:

Lower the section 202 mortgage loan (thus reducing subsidy amounts).

Allow more coverage from departmental funds (the section 202 appropriation could be leveraged to apply to more units per year).

Enhance project viability through tighter management techniques attributable to profit motive.

Although the statute allows use of the program by limited profit sponsors, Congress in the past has restricted its use through appropriations acts to nonprofit organizations.

Question 4. Does HUD have any data to suggest that limited profit groups can build housing, comparable to section 202 housing, at lower costs?

Answer. A HUD study nearing completion, which examines the costs of developing multifamily housing under HUD programs, shows brick-and-mortar costs of section 202/8 about 29 percent above those for unsubsidized FHA construction. Total development costs are also higher by 12 percent. Section 202/8 also has the highest per square foot cost. At $43.89, it is over $5 more than for HUD/FHA projects.

Question 5. It is logical to assume that if HUD opens the section 202 program to limited profit groups then syndication will follow. Through syndication, tax revenues will be reduced. These reductions could be considered a "cost" of construction. Has the Department done an estimate on what the amount of such lost revenues would be?

Answer. Construction costs for section 202 are the amounts included in the direct loan and reflected in the debt service payments which determine the subsidy. Thus, any lost revenue to the Treasury through syndication over the life cycle of the project should not be included in the construction cost of the section 202 program. It is not included in any other HUD program.

HUD has not made an estimate of the total cost to the Treasury if the section 202 program were syndicated. If syndication were to be allowed, provisions could be made to reduce this cost by such means as requiring sponsors to contribute to the project's viability through equity investment and a limited escrow of any syndication premiums realized through the sale of the shelter to limited partners or other investors.

Question 6. Has HUD conducted any studies or surveys to support the reduction of funding for congregate space from 15 to 10 percent of the section 202 project loan amount? (If so, please provide.)

Answer. The 15-percent figure has been used in an example in the section 202 handbook and is not a prescribed figure. Based on considerable experience since the handbook was issued, it has been determined that the use of 10 percent of the total project loan amount for nondwelling use space is reasonable and will not deprive the occupants of the building of any needed special spaces or amenities.

Question 7. Has HUD conducted any comparative or other studies to determine whether the proposed section 221(d)(3) cost limits are sufficient to permit the construction of section 202 projects with the necessary special design features?

Answer. No studies have been conducted specifically for this purpose. The difference in design features of that part of a project considered to be for dwelling use, between a section 202 project and a section 221(d)(3) project for the elderly, should not be of such significance to involve a difference in unit cost limits. Special amenities and design features, which by definition are considered costs not attributable to dwelling use, are not to be included in the unit cost limits. As noted in the previous questions, these are limited to 10 percent of the section 202 project loan amount and are additional amounts over and above that allowed for dwelling use.

Question 8. How many nonprofit sponsored section 221(d)(3) elderly projects and units have been insured using the present 221(d)(3) limits. To what extent have these nonprofit groups put up equity funds to make the projects feasible? How do the congregate and related facilities in these projects compare with those in section 202 projects? How do they vary in cost?

Answer. The number of elderly nonprofit sponsored projects and units insured under section 221(d)(3) since 1977 are as follows:

Year	Project	Units
1977	9	694
1978	14	1,151
1979	16	1,006
1980	4	122
1981	4	541
1982	0	0

Without reviewing the paperwork for each individual project we are unable to determine those which were insured under the present 221(d)(3) fund limits. Nor, without similar effort, can we provide the other information requested by the question. However, we have no information on hand which would indicate that these projects have not completely fulfilled the needs of their elderly occupants.

Question 9. Why is the Department proposing to increase the minimum escrow requirements for section 202 projects from $10,000 to $25,000? Has HUD experienced particular difficulties with sponsors because of the present $10,000 requirement? How often has the minimum capital investment been used? Wouldn't a substantial increase in the escrow requirement discourage minority, rural, handicapped, and other nonprofit groups from participating in the program?

Answer. The reason for the increase in the minimum capital investment is twofold. First, substantial inflation has occurred since the $10,000 ceiling was imposed in 1976, suggesting that a substantial increase is appropriate. Second, experience under the section 202 program suggested that an increased financial commitment from the nonprofit borrower will represent an increased commitment to the success of the project.

We do not believe that the increase of minimum escrow requirement to $25,000 will discourage nonprofit sponsors. While it has been necessary to use the escrowed

funds only infrequently, we believe the reason for this is that the escrow requirement has insured a positive commitment to the project.

Senator HEINZ. Our next witnesses will be part of a panel. They are: Jeanne Kinnard, Donald Peterson, Ellen Feingold, and Marie McGuire Thompson.

Thank you all for being here. And, if I may, I would like to ask Jeanne Kinnard of the Ad Hoc Coalition for Housing for the Elderly to be our leadoff witness.

I would at the outset like to express my appreciation to the Ad Hoc Coalition for all the help they have given the committee, committee staff, myself personally, on the legislation we introduced on Tuesday to preserve the section 202 program, to make sure that it continues to perform well, and to keep its basic character intact.

Ms. Kinnard.

STATEMENT OF JEANNE KINNARD, WASHINGTON, D.C., STEERING COMMITTEE MEMBER, AD HOC COALITION FOR HOUSING FOR THE ELDERLY

Ms. KINNARD. Thank you, Mr. Chairman.

My name is Jeanne P. Kinnard. I am here today in my capacity as convener for the Ad Hoc Coalition for Housing for the Elderly. I am also the housing coordinator for the American Association of Homes for the Aging.

The Ad Hoc Coalition, as you know, is an informal group, comprised of over 25 national organizations committed to serving the housing needs of the elderly. Since 1974, the Coalition has acted as the watchdog for the section 202 program, vigorously seeking its revival in Congress in 1974, and its implementation by HUD in 1975. More recently, the Coalition has worked closely with HUD to develop sensible administrative procedures for the section 202 program, and with Congress to secure adequate annual funding levels.

I will address my brief remarks today specifically to the section 202 program, and to S. 2404, the bill recently introduced by you, Mr. Chairman, extending the loan authority for the section 202 program and making several important program amendments.

At the outset, I would like to extend our gratitude on behalf of all the members of the Ad Hoc Coalition for your work, Mr. Chairman, and Senator Chiles, for coauthoring this important measure. The section 202 program has been the successful program that we know it to be today largely because of your outstanding long-standing commitment, and the support this committee has consistently given the nonprofit housing program. The bill introduced this week is a fine example of your shared concern for the section 202 program, and it has our enthusiastic endorsement. The final product addresses many of the Coalition's concerns about the future operation of section 202 housing, and we are grateful to the committee for seeking our comments.

As we have heard today, it has been a perilous year for Federal housing programs. Due to the exemplary track record, and the widespread popularity of the section 202 program, the administration withdrew its original intention to eliminate the elderly and handicapped program. This year, section 202 was the only Federal housing program funded at 1981 levels, and in 1983, section 202 is

the only new construction program funded at all, albeit at only $453 million. At first glance then, it would appear that section 202 has faired comparatively well. A closer look, however, at the administrative decisions affecting the section 202 program in the past year indicate a less than wholehearted commitment to the goals and future of the section 202 housing by this administration.

Since last September, HUD has issued a report on cost reduction in the section 202 program; issued a notice requiring specific cost containment measures in section 202 development; revised on three separate occasions departmental policy concerning the approval of extensions of fund reservations; issued regulations setting an interest rate at 9.25 percent; tightened policy on the use of project reserve funds to cover the cost of changes during construction; and approved the first prepayment of an original section 202 mortgage. In addition, the Department will issue, very shortly, regulations that will lower per unit development cost limits, require competitive bidding, and raise the escrow fund required of the sponsor.

The overall intent of most of these actions is to lower the high development costs associated with section 202. The Coalition has in the past welcomed the implementation of the program improvements, provided they strengthened the Department's ability to carry out the goals of the section 202 program. In witnessing and reacting to many of these actions over the past year, the Coalition has become increasingly concerned that many of the actions taken in the name of cost containment will have the combined effect of seriously hampering the capabilities of nonprofit sponsors to develop and operate that special brand of housing that we know to be section 202.

Since 1959, the section 202 program has provided direct loans to nonprofit organizations to build low-cost appropriate living arrangements for the elderly. To date, nearly 150,000 units are occupied or in development. In its 20-year history, the section 202 program has had but one foreclosure. Credit for this exemplary track record is due to the dedication and commitment of the nonprofit sponsors, as well as to the HUD staff in Washington and the field, who have done much to promote the development of financially and programmatically sound projects.

Section 202 is unique in this respect. Potential sponsors are judged not solely on their ability to develop and manage housing, but on how well the living environment of the facility will serve the elderly residents. Section 202 is far more than a construction program, it is more than a section 8 set-aside for nonprofit sponsors of housing for the elderly. The average section 202 project provides more because the population it serves requires additional features in order to live a safe and fully independent life. Through the section 202 program, nonprofit sponsors are able to build far more than affordable shelter. The section 202 direct loans provide funds for sponsors to create a home, an environment in which the total needs of the aged resident can be met. Design features, such as accessible units for wheelchairs, handrails, emergency call systems, these are not luxurious amenities when they exist solely for the purpose of helping to keep elderly people independent.

The direct loan builds the buildings and HUD provides the rental subsidies that allow low-income people to become residents. But the

essential characteristics that determine section 202 housing come from the charitable donation, the community services, the good will, and the dedication of nonprofit sponsors themselves.

The Coalition is concerned because the administration's remedies for reducing the development costs of section 202 housing do not seem to recognize the unique aspects of this specialized housing. They are based instead upon the assumption that the cost of developing section 202 housing is higher than other subsidy programs because of the involvement of inexperienced nonprofit organizations and luxurious program design.

To the contrary, it is the Coalition's firm belief that the quality of section 202 housing is directly attributable to the hundreds of nonprofit sponsors that have successfully negotiated the sometimes torturous HUD development process.

We strongly support the provision in S. 2404 that would statutorily endorse the prevailing practice of limiting participation in the section 202 program to nonprofit organizations.

The Urban Systems Research & Engineering Corp. in Washington recently issued a draft of its forthcoming report on a study analyzing the costs of HUD multifamily housing programs. This study, commissioned by HUD, reveals several important facts relevant to the costs associated with nonprofit housing development under section 202.

The draft report states that section 202 hard development costs are indeed higher than those associated with standard section 8 construction, but that these increased costs are due, at least in part, to the special design requirements associated with elderly and handicapped residents. The study goes on to say that the cost differentials between section 202 and other programs reflect subtle design differences that may well contribute to the quality of life, but lead to increased improvement costs.

Further, when all relevant factors, such as lower land costs and lower soft development costs, are statistically accounted for, the section 202 program turns out to be only 12 percent more expensive than the unsubsidized FHA units.

Furthermore, the use of nonprofit sponsors, leading to the lower soft development costs and favorable financing costs, cause section 202 to have the lowest per unit subsidy of any HUD program.

These facts dispel the popular myth that section 202 is the most expensive form of HUD housing.

Over the years, the Coalition has fought to maintain the high standards of design and construction associated with section 202 housing. In the short term, the cost of this quality housing is more than offset by the relatively low subsidy costs, the long-term commitment of sponsors, and the quality of life section 202 offers its residents. We are deeply concerned, therefore, about the Department's intention to lower the section 202 per unit costs to coincide with section 221(d)(3). Not only will this reduction seriously jeopardize the ability of the nonprofit sponsors to produce high quality section 202 housing, but it is directly contrary, in our opinion, to congressional intent.

Responding to similar efforts by HUD to arbitrarily lower costs, Congress directed HUD to establish section 202 per unit mortgage limits without regard to the limits established for projects for the

elderly developed under section 231. Such an action would, in the view of Congress, result in an improper cost limitation on section 202 development.

Are we not faced with an analogous situation today with HUD's intention to lower per unit mortgage limits to that of a completely different program?

While we regret the necessity to continue slapping HUD's hand legislatively, the Coalition is asking Congress to direct HUD to establish realistic per unit cost limits that reflect the standards and goals of section 202 housing without regard to other HUD programs.

Two points contained in the section 202 cost-reduction regulations that will be forthcoming deserve mention.

First, it is doubtful that sponsors selecting general contractors through a competitive bidding process will achieve the cost savings anticipated by HUD. The time consumed by one more mandatory development step will directly translate into increased development costs. Since general contractors are currently operating on very slim profit margins, it is doubtful if the bids would differ substantially from the negotiated contracts. More importantly, the present regulations permitting the negotiated contracts offer the sponsor crucial flexibility in assembling his development team. A contractor, like a consultant and an architect, must be selected not by cost considerations alone, but by weighing the firm's experience and ability in constructing section 202 housing and other facilities serving the elderly and with working with nonprofit organizations. The Coalition feels strongly that the sponsor must continue to have flexibility to select a general contractor either through a negotiated contract or by utilizing a competitive bidding process.

Second, HUD is expected to require that the sponsor's minimum capital investment be raised from $10,000 to $25,000. This investment is placed in escrow at the time of initial closing and is held in reserve to cover operating deficits that may occur during the first 3 years of occupancy. After the initial 3-year period any remaining balance is returned to the borrower. The minimum capital investment is also a means of insuring the commitment of the sponsor to the development and management of the project. It does not offset mortgagable costs, and, therefore, raising the required investment does not achieve cost savings. To our knowledge, most, if not all, section 202 sponsors never need to use the escrowed funds. We can only assume, therefore, that proposing this change would be to eliminate those sponsors unable to raise as much as $25,000.

The Coalition totally rejects this practice and supports the provision in S. 2404 that would mandate the current practice.

Time does not permit a complete discussion of the Coalition's views on your bill.

In closing, I would like to commend the authors and cosponsors of S. 2404 for seeking a reasonable level of loan authority. The White House Conference on Aging called for the annual production of 20,000 units of section 202 per year as a realistic goal that balances the overwhelming demand for section 202 housing with the economic realities of our time. We are pleased to see this goal reflected in the bill and we will vigorously seek its adoption.

Thank you for this opportunity to discuss our views.

Senator HEINZ. Ms. Kinnard, thank you very much.

According to our witness list, Mr. Peterson, who is from Billings, Mont., would be our next witness. But I know Senator Melcher is coming here in a few minutes. Indeed he is coming for two reasons. The main reason he is coming is to introduce Mr. Peterson, but the second reason is he knows I have to go to the White House at 11:30 and he is going to chair the committee in my absence. But, in deference to him, because I know he would like to have the pleasure of introducing you, Mr. Peterson, would you mind if I went to our third panelist, Ms. Feingold, and reserved you for proper treatment?

Mr. PETERSON. Not at all.

Senator HEINZ. Thank you very much.

Ms. Feingold, you are the executive director of the Jewish Community Housing for the Elderly in Brighton, Mass.

We welcome you to the committee. Please proceed.

STATEMENT OF ELLEN FEINGOLD, EXECUTIVE DIRECTOR, JEWISH COMMUNITY HOUSING FOR THE ELDERLY, BRIGHTON, MASS.

Ms. FEINGOLD. Thank you, Mr. Chairman. I am also here representing the National Low-Income Housing Coalition and the New England Elderly Housing Association. We have half a dozen projects in Maine, so I was particularly sorry that Senator Cohen had to leave. But what we have to say applies all over the country.

In brief, I wanted to be very concrete and speak to what some of the changes proposed by the administration would mean to the tenants in our housing.

Jewish Community Housing for the Elderly has four buildings built and subsidized under four different State and Federal programs. We have 834 units, some 1,400 tenants, about 95 percent of whom are very-low-income tenants subsidized under section 8.

These are high rise apartment houses ranging in age from 10 to 2 years.

The tenants include an interesting group of about 40 Russian emigres who have been assisted into this country in the last couple of years.

I will not describe their financing or any other development details because this is in my prepared statement. Instead, I will concentrate on the impacts on tenants of some of the administration proposals.

To begin with, I am concerned about the various changes proposed for setting rents. And I have in my prepared statement some of the direct implications of these changes.

We calculated, for example, the average medical deductions of our tenants, and we came out almost exactly at the national average. Our medical deductions average around $800 a year.

Senator HEINZ. Medical deductions for the average elderly person?

Ms. FEINGOLD. No. I do not want to say for the average tenant. That is the average deduction.

This is what is so deceptive, because the range of this deduction is from zero to $7,000. The $7,000 was a 1-year event. That person's

rent will go up again next year. But there is a paraplegic tenant whose medical deduction annually is $4,000 out of about a $6,700 income. To not permit that $4,000 medical deduction will have staggering implications for that person's rent and, in fact, he will no longer be able to afford to live in assisted housing.

I think it is very important that we understand that average medical costs are a foolish way of dealing with elderly people.

Senator HEINZ. If he or she was no longer able to live in assisted housing, where would they live?

Ms. FEINGOLD. On the street. I am dead serious. There are 5,000 people on the street in Boston today, homeless, living in cars, living in doorways. We have 800 beds in overnight shelters and there are 5,000 people.

One of the things that I foresee, if what I consider the "Draconian recommendations" in the administration's proposal go through, is that sponsors in my position are going to be forced to evict our lowest income tenants.

Utility costs, which Senator Cohen and you have both spoken about, are enormous. In our buildings, they average $80 a month per apartment. For the month of February 1980, utilities averaged about $110 per apartment.

In my prepared statement, you will find a chart compiled by simply going to our files and pulling out 12 files. There was no selection process involved here—just from files from each of three different buildings. I have analyzed what the present rent is, and what would happen to each of these 12 tenants when we got to 30 percent of income for rent; what would happen if we could not deduct their medical expenses; and what would happen if we added fuel costs.

The rent increases range from a low of 64 percent to a high of 161 percent. That is the magnitude of the impact of these changes. And one has to point out that these are the same people whose benefits are being cut. These are the same people who are going to be getting fewer medical benefits so that they will have higher unreimbursed medical costs. These are the same people whose old-age benefits are not going to receive a full cost-of-living increase.

It is really quite staggering when you add all of these things together.

We do not have records as to which of our tenants are on food stamps because we have had no need to keep such information. So, I cannot help you with that. But I would just like to speak to one of the issues on food stamps which was alluded to before.

If we are going to talk about fairness with respect to the inclusion of food stamps in income, then we have to do something about the extraordinary unfairness of the distribution of food stamps across the States.

I have before me figures which I believe have been submitted to you before, which were compiled by Cushing Dolbeare of the Low-Income Housing Coalition, which show that for AFDC recipients—that is not our population, but it is a good comparison—for AFDC recipients, the rent increase caused by counting food stamps as income ranges from a low of 16 percent in California to a high in Alabama and Texas of 269 percent. These are staggering numbers. Furthermore, it appears that you going to ask me to accept rent in

food stamps. If we, in fact, begin assuming that food stamps are cash, that means I am going to have to take it as cash. I will have to accept 25, 26, or 27 percent of people's food stamps as part of their rent payment.

Other aspects of the administration's proposals which we find very disturbing are not reflected in the budget or the proposed legislation. They are regulatory proposals. But I believe that legislation is going to be required in order to prevent their imposition through regulation.

We are experiencing either the flat funding or the failure to increase adequately the amount of subsidy dollars we are getting. Let me explain.

In our older buildings, one of which is an old section 202, and one of which is a section 236, contracts for section 8 add-ons were negotiated in 1976 in order to cover increasing operating costs that the other programs did not reach. That was a 5-year contract. Enough cash was put into it presumably to carry us through 5 years. It included an option to renew twice again for 5 years.

Last fall, when those two contracts came up for renewal we were told that we would get exactly the same number of dollars for the next 5 years as we had gotten and spent for the past 5 years—take it or leave it.

Now, it does not take a genius to tell you that those same dollars are not, in fact, going to cover our costs over the next 5 years, even if costs virtually stopped going up. Something will have to happen. Either we are going to be forced to manipulate our tenants and get higher income tenants—which seems to be one of the administration's goals, incidently, to force us all to reject the poorest tenants and to look for the higher income tenants because they use fewer subsidy dollars—or else we will be cutting back on services to a point at which the buildings themselves begin to deteriorate. Or, finally, will we be forced to default on our mortgages, which is the ultimate consequence when not enough money is available?

We are very concerned that this is also going to be the policy on the long-term 40-year section 8 contracts that are linked to the new section 202 buildings, because legally, they are also written as 5-year renewable contracts.

Now, the presumption and the legislative record is clear. Those contracts were intended to be amended from time to time to cover the difference in costs between true operating costs and 25 percent of tenants' income. If, in fact, they are not going to cover that real difference, then all kinds of things are going to begin to happen to the elderly population that lives in those buildings.

Senator HEINZ. We will make your entire statement a part of the record.

Ms. FEINGOLD. Yes; thank you.

Senator HEINZ. The examples you have in it and the statistics are absolutely marvelously compiled and will be extremely valuable to me and others.

Ms. FEINGOLD. Well, I wanted to make them very specific.

I have a couple of other things that I want to add briefly.

Forty-three percent of the population of the city of Boston is eligible for public housing. And that is probably true in most major cities.

Thirty-seven percent of that group is elderly or handicapped. And that is 27,000 people.

We do not come close to housing those people. We do not come close to taking care of them decently. I do not think we are going to come close for many years. But it is hair raising to think that now is the time when we are going to stop efforts which at least to date have been reasonably successful.

Thank you.

Senator HEINZ. Ms. Feingold, thank you.

[The prepared statement of Ms. Feingold follows:]

PREPARED STATEMENT OF ELLEN FEINGOLD

Senator Heinz, members of the committee, I am Ellen Feingold, and I am speaking for both the National Low-Income Housing Coalition and the New England Elderly Housing Association. I am deeply grateful for the opportunity to present to you some data about the impact the administration's budget proposals will have, if implemented, on one particular group of low-income elderly residents of subsidized housing.

I speak also as executive director of the Jewish Community Housing for the Elderly—a nonprofit sponsor of four large housing developments for low-income elderly people. JCHE was founded in the late 1960's in response to the growing shortage of housing in the Greater Boston area which was having an especially destructive effect on the lives of the elderly.

By 1969, the organization realized that the only real solution to the housing crisis was to begin to build desperately needed housing units, utilizing the various State and Federal housing tools which had been enacted for this purpose.

JCHE includes on its board of directors some of the foremost developers, lawyers, accountants, and builders, as well as social and community workers in the Boston area. They have joined together in an effort to do something of vital importance for their community. This was and is volunteerism of the highest order. Thousands of hours of valuable time, energy, and skill were poured into JCHE's projects which have become models throughout the country.

Ultimately, four large buildings were erected (see tables 1 and 2). The first was Ulin House, named after the founder of JCHE, Benjamin Ulin, and developed under the old section 202 program. Ulin opened in 1971 with 243 efficiency and one-bedroom apartments, 215 of which were further subsidized in 1976 under the section 8 program for existing housing. JCHE entered into a 5-year contract with HUD for $1.9 million, with the option to renew for two additional 5-year periods.

TABLE 1.—PROJECT DESCRIPTION

	I	II	III	IV	Total
Date occupied	1971	1973	1978	1979	.....
Number of units	243	256	211	124	834
Efficiencies	171	58	.....	.....	229
1 bedroom	72	198	196	119	585
2 bedrooms	.....	.....	21	5	26
Handicapped	.....	.....	22	11	33

TABLE 2.—PROJECT FINANCING AND SUBSIDIES

	I	II	III	IV
Financing program	[1] 202	[1] 236	MHFA	[1] 202
Mortgage	$3,803,000	$5,306,400	$6,932,968	$4,712,800
Interest rate (percent)	3	7	7.7	6.875
Amortization, year 1982	$43,397	$42,042	$33,869	$25,091
Amortization per year per unit	$179	$164	$161	$202
Sec. 8 units	215	205	210	100
Sec. 8, dollars per year	$380,244	$425,232	$922,584	$407,160

TABLE 2.—PROJECT FINANCING AND SUBSIDIES—Continued

	I	II	III	IV
Sec. 8, dollars per year per unit	$1,768	$1,563	$4,393	$4,071
Rent supplement, units	6	33		
Rent supplement, dollars per year	$12,792	[2] $81,684		
		[3] $65,000		
Rent supplement, dollars per year per unit	$2,132	[4] $2,475		
Market rent, 1 bedroom unit	$297	$307	$479	$483
Number of unsubsidized units	21	16		23

[1] Section. [2] Authorized. [3] Actual. [4] 8 months only.

Ulin House celebrated its 10th anniversary last year, and Dr. Sandra Howell of MIT was commissioned to do a study of the residents, their needs, and the ways in which these needs are or are not met within Ulin House, and to make recommendations for the future of our housing, and any plans we might have to build additional housing.

Clearly, we are doing some things right. Forty-three percent of the original tenants of Ulin House are still living there—most in their eighties. There were relatively few vacancies in the years since 1972 until 1979, when 12 percent of the apartments turned over, and again, in 1980, when 11 percent turned over. Obviously, most vacancies result from either death or a move to a nursing home—about 50 and 40 percent, respectively.

Ulin House was built at a cost of $3.8 million, which was borrowed at 3 percent. Principal and interest amount to only $179 a year per apartment.

The second building was developed under the section 236 program and opened in 1973 with 256 efficiencies, one- and two-bedroom apartments. Thirty-three apartments were subsidized from the outset under the rent supplement program, but, in 1976, this building also contracted for 205 units of section 8 assistance to cover rapidly escalating costs, caused predominantly by fuel charges (see table 3).

TABLE 3.—OPERATING COST INCREASES

[In percent]

	I	II	III	IV
1978 to 1979	14	11		
1979 to 1980	10	5	8	
1980 to 1981	11	21	5	9
1981 to 1982	32	28	10	11

The third building was financed through the Massachusetts Housing Finance Agency and has a 40-year section 8 agreement as part of its basic financing structure. It has 211 one- and two-bedroom apartments including 22 specially designed and equipped units for wheelchair users.

All three of these buildings are situated on a single handsome site in the Brighton section of Boston. The fourth building is in Newton, just west of Boston, and contains 125 apartments. This building also has a 40-year section 8 contract attached to its financing under the new section 202 program, but 24 of its units are not subsidized and those tenants pay the full market rental which, despite financing subsidies, is quite substantial. Also, this building is the only one which provides meals for its residents—a mandatory, unsubsidized program.

Thus, virtually all the residents of our 834 apartments are "very-low-income tenants" under HUD's definitions. Twenty-four are "market tenants," and under 40 are low or moderate income. Our concern is that, through both legislative and regulatory changes, we are being pressured to change the character of our housing, and to replace those "very-low-income tenants" with others who will carry a greater share of the cost of this housing. This is being done through a variety of devices:

By raising the income eligibility standards, so that a couple with an income of $17,400 a year is now eligible for this low-income housing;

By raising the percentage of income which a low-income person is required to pay for rent from 25 to 30 percent;

More serious, by changing the way income is defined for purposes of determining rent so that noncash income like food stamps would be added to the base, and currently authorized deductions like nonreimbursable medical expenses would no longer be allowed and would be included in the base;

And finally, by requiring tenants to pay utility costs, including heat.

It doesn't take a genius to figure out that the greatest rent increases would fall upon those tenants who receive the largest amounts of noncash assistance (usually the poorest), who have the largest medical expenses (often the elderly), and whose utility bills are the highest (living in the depressed Northeast and Midwest) (see table 4).

TABLE 4.—UTILITIES

	I	II	III	IV
1981 utilities (including heat)	$186,500	$246,434	$195,566	$119,933
1981 utilities per unit per month	68	100	88	81
February 1982 utilities	21,269	33,544	18,794	12,523
February 1982 utilities per unit	88	131	89	101

Let me tell you what these changes will mean to the residents in our housing. First, medical expenses. Our residents have unreimbursed medical expenses ranging from none to $7,000. The average medical deduction is just under $800, virtually identical with the national average, according to latest census statistics. This means that the average rent increase resulting from the inability to deduct medical expenses from income would be about just under $18 a month, but for those with higher expenses, it would be much higher (a simple calculation—26 percent of the yearly medical expense divided by 12). For our resident who had to have extensive oral surgery and prosthetics costing $7,000, this would mean a monthly rent raise of $152. For another resident, confined to a wheelchair and with $4,000 annually in therapeutic expenses, it would mean a monthly rent increase of $87.

Paying utility costs will produce even higher across-the-board raises. Elderly people are subject to hypothermia and should not be subjected to cold. Yet they clearly will not be able to pay for this level of heat. The average monthly cost for utilities for each apartment is $82, and during the month of February 1982 was $102. Increases of this size are simply not supportable and can, indeed, exceed a resident's cash income altogether.

We do not have information about food stamp use among our residents, so I have not been able to provide you with information about the effect of this change on our own residents. However, the national statistics are compelling. Once again, the very poorest residents, those who receive the greatest proportion of their income in noncash assistance, would bear the largest rent increase burden.

Finally, just to make this even more concrete, I pulled the folders of 12 of our residents in the three Brighton buildings. This is what will happen to 12 real elderly families or individuals.

CASE HISTORIES OF 12 FAMILIES OR INDIVIDUALS

	Present rent	Rent at 30 percent of income	With no medical deduction	Medical expenses	Including utilities	Percent increase
1	$94	$112	$112	0	$180	91
2	67	80	105	$964	173	158
3	182	217	231	524	299	64
4	215	257	271	571	339	68
5	94	113	140	1,100	240	155
6	91	109	133	943	233	156
7	109	131	137	250	237	117
8	80	96	109	505	209	161
9	98	118	127	359	215	119
10	100	120	152	1,300	240	140
11	107	128	150	851	238	122
12	93	111	115	125	203	118

And as if this impact is not severe enough, we must be very clear that these are the same people whose old-age benefits and entitlements will not receive a full cost-of-living adjustment, whose medical benefits will probably be reduced, and whose nutrition and employment opportunities under the Older Americans Act it is proposed to eliminate. It is hard to perceive any safety net here.

But the budget proposals have implications for subsidized housing like ours that go beyond the impact on tenants. When JCHE's 5-year section 8 contracts in our two older buildings expired last Fall, HUD would only renew them for another 5 years for the same total value as had been committed for the previous 5 years. Clearly, costs in the next 5 years will exceed those for the previous period.

We believe this "flat funded" contract renewal violates the clear intent of the section 8 program—to cover the real difference between what tenants can afford and the cost of operating the buildings. Further, in the OMB proposed HUD budget published in the Congressional Record last December, the administration announced its intention to increase yearly authorizations under long-term section 8 contracts by no more than 5 percent a year.

Housing sponsors like JCHE, faced with these policies, find themselves in a terrible dilemma. Either cut back operating costs and maintenance and let the housing structures and investment deteriorate, or evict low-income tenants and replace them with tenants who can carry a much heavier share of the costs of the housing, or default on the bondholders. It is not a pleasant choice. And it is a choice being forced on community organizations, churches, and other groups which have willingly volunteered to organize themselves as sponsors for needed community low-income housing.

Shelter costs are not cheap. Interest rates alone have more than doubled the cost of a dwelling unit over the past decade. The average per unit subsidy in our housing is over $4,000 a year for those apartments developed after the steep rise in interest rates took place in the mid-1970's. Volunteers and community organizations which have the commitment and have developed the expertise continue to stand ready to do their share, but with costs like that, there is no way the job can be done without major Government support.

It seems strange to us that Government policy now appears to be aimed at dispossessing the very poor from the very housing which has been developed at substantial cost to shelter them when the need for such housing, especially decent housing for the elderly low-income, is growing dramatically. We all know the demographics—the baby boom generation is in its midtwenties and early thirties, healthy and with long life expectancy. The elderly population is expected to grow geometrically over the next decades. The majority of persons over 65 years of age are low income, and this proposition is also expected to increase with the contraction of the Western economies. We should not be pausing in our efforts to develop more housing for low-income elderly.

But in addition to programs and policies whose aim is to replace current low-income tenants with households of moderate income, the administration is proposing an almost total halt to the construction of any new low-income housing. The fiscal year 1983 budget proposes a mere 10,000 units of section 202 housing for the entire country, at funding levels that will, in fact, be more likely to produce only 7,000 to 8,000 units.

Let me give you some local numbers. JCHE has 834 units of housing. Our active waiting list screened in late 1981 numbers almost 700 and we strongly discourage any new applicants from putting their names on our lists. Turnover is very slow, averaging five units per month.

	I	II	III	IV
Number of dwelling units	243	256	211	124
Number of turnovers, 1981	30	18	10	7

At this rate, we could not house our present waiting list in our buildings in the next 10 years. For the city of Boston, the figures are startling. Forty-three percent of the population of the city is eligible for public housing—49 percent of its renters. Thirty-seven percent of this group is elderly or handicapped—almost 27,000 people. There are 1,419 elderly households on the Boston Housing Authority waiting list.

And, most disturbing of all, there are an estimated 5,000 homeless people in Boston—people who sleep in cars, in doorways, in abandoned buildings, and, when they can get in, in one of the 800 beds in overnight shelters.

I am not the preachy kind—I have always been highly pragmatic in my approach to the responsibilities of Government and the obligations of its citizens. I only know that a society which is ready to deny its own elderly a decent old age has become truly decadent, and is in a state of internal decline which no amount of external strength can reverse. I look at the numbers which I have presented to you today and I see a point in the not-at-all-distant future, when as director, I may be asked to evict low-income elderly people because they cannot afford the rents which our Government is requiring me to charge them. I personally will not stay to do that—but those who devise the programs, and pass the laws, and issue the regulations which demand that these evictions take place, will have to bear the responsibility for putting old and destitute Americans out on the street as though they had themselves carried them out of their homes and put time on the sidewalk. I simply cannot believe this is where we are going, that this is the country in which we want to live and which we want to defend.

Senator HEINZ. I am told Senator Melcher is on his way. I regrettably have to be on my way down to the White House. The President is signing the resolution regarding National Victims Week. Yesterday I introduced the legislation to substantially change, improve, really start having a Federal policy on treating victims and witnesses properly in this country. I regret that I must go.

In the meantime, because I know Ms. Thompson and Mr. Peterson are yet to testify, I am going to ask John Rother, who is the staff director and chief counsel of the committee, to keep the hearing going. And I will ask Ms. Thompson to be our next witness.

I apologize to all of you that this intervened. It only came up at 4 o'clock yesterday. There was no way we could make any changes. I apologize to all witnesses.

I do thank all four of you for being here and for traveling in many instances for considerable distances. I thank you in all cases for the excellent testimony.

I have been saving the best for last in any event. I refer both to Senator Melcher, who has kindly agreed to chair the remainder of these hearings, and John.

I knew you would want to introduce Mr. Peterson, who is from Billings, Mont. I took Ms. Feingold's testimony and Ms. Kinnard's testimony. Mr. Peterson has not yet testified and neither has Ms. Thompson.

I now have the high honor and great privilege of turning the hearing and the gavel over to you, Mr. Chairman.

Senator MELCHER [presiding]. Thank you, Mr. Chairman. Before we hear from the witnesses, I have a statement that I will insert into the record.

[The prepared statement of Senator Melcher follows:]

PREPARED STATEMENT OF SENATOR JOHN MELCHER

I would hope that the reason for our being here today is to explore and examine ways to best meet the unique housing needs of our Nation's elderly and handicapped individuals, particularly low income, in a way that makes the best use of our shrinking Federal dollars. I believe that adequate and appropriate housing for the elderly and handicapped, at a cost they can afford, must continue as a national concern and commitment.

This committee must very critically and carefully scrutinize the administration's housing proposals as they would affect older Americans. I am particularly concerned about the voucher plan, as it seems to me that thrusting senior citizens and handicapped individuals into an unpredictable and competitive free market system may make demands with which they are physically, psychologically, and financially unable to cope. The support of a specialized housing environment, with services available, if needed, has worked in helping these individuals to remain as independent as possible. Why cut back on a system that is working?

Perhaps one of the things we ought to be looking at is ways of making the present system work better, and making more effective use of the Federal dollars we are now using. Just in the past few months, I have been involved in working with the Department of Housing and Urban Development in two situations that could have very seriously affected the lives of several thousand elderly individuals in my State. These situations also involved, what I felt, was overregulation and unnecessary interference with local project operations by a sudden shift in policy direction from Washington, D.C. Overregulation and centralization of authority only increases administrative costs and load, not only throughout the layers of government, but to each individual project which is only trying to do the best job it can for the people it serves.

One problem involving a number of projects for the elderly and handicapped in my State was a shortfall of rent supplement funds, which caused several projects to go into assignment. A ripple fear effect caused others to say they felt their tenants would be evicted out into the cold Montana winter. Their reserves were being used to meet mortgage payments. If a furnace had gone out, these people would have been in real trouble. The project I worked with most closely had half of their handicapped tenants in wheelchairs, the majority of them blind.

Through work with HUD officials here, we hope this problem is resolved. They have received supplemental contracts increasing the amount of their rent contracts for 5 years. Another problem, that of late checks, I hope has been taken care of, with HUD having installed a hotline for projects to call if the payment wasn't there in time. Some of these projects operate so marginally, that every month they fear a late mortgage payment will put them into assignment.

And assignment of these projects would only cost the Federal Government more money because of a necessary shift to higher interest rates.

The other situation involving retirement homes was the refusal of HUD to grant a rent increase, or allow repair money to be used, unless a well-accepted, economical, 13-year-old mandatory 3-meal-a-day policy established and strongly supported by the local board and residents was eliminated. I felt this was interference and a flagrant disregard of local and individual needs by some bureaucratic mandate from Washington. The average age of the residents in this facility was 87. Suddenly, somebody in Washington, D.C., was going to tell these little old ladies that their meal pattern had to be changed. Furthermore, cutting back on meeting the nutritional needs of these very elderly people could well result in earlier nursing home placement. I am sure we all agree that would be far more costly.

We did succeed in getting HUD to back off and allow these projects to continue operating under meal policies that HUD previously had approved. But, with an administration that is publicly committed to deregulation and decentralization, I seriously question why so many Federal dollars are being spent on overregulation and centralization of decisions that don't take into account local needs.

I did have excellent cooperation with HUD officials in resolving these problems once they were called to their attention. I feel the focus is where it belongs, on meeting the needs of the individuals in these projects with the most effective use of public funds.

However, these problems were not peculiar to my State. They are symptomatic of broader policies that we should continue to work on together. Overregulation, overgeneralization, and overcentralization must be eliminated. Let's put the administrative dollars required for those policies to work for people instead.

The goal of this committee and other Members of Congress should be to continue to work cooperatively with the administration, not only in making present programs work better, but in passing legislation that works well for the elderly and handicapped, and continues the national commitment to provide adequate housing. Again, it seems to me that rather than plunging into untested and precipitous changes that could be harmful to some of the most vulnerable persons in our country, we ought to be looking at more careful ways of spending Federal dollars and shaping up these programs so they work.

Senator MELCHER. It is an honor for me, and it is a privilege for the committee, to have Donald Peterson, who is the administrator of the St. John's Lutheran Home at Billings, Mont., here to testify.

Mr. Peterson, I am very delighted to have you here and very appreciative of the fact that not only have you done a nice job with the St. John's, but you have provided leadership in Montana, and throughout the country, for nursing home supervision. I am delighted to have your testimony.

Please proceed.

STATEMENT OF DONALD A. PETERSON, ADMINISTRATOR, ST. JOHN'S LUTHERAN HOME, BILLINGS, MONT., ACCOMPANIED BY LAURENCE F. LANE, DIRECTOR FOR PUBLIC POLICY, AMERICAN ASSOCIATION OF HOMES FOR THE AGING

Mr. PETERSON. Thank you, Senator Melcher.

It is a pleasure for me to be here and to have you currently chairing this session, Senator. And I would like to take this opportunity to commend you for the work you have been doing for the housing segment in Montana recently. You have been a great help in some of your work, as we have worked through some concerns that we have in Montana. Thank you.

I am Donald Peterson, administrator of St. John's Lutheran Home in Billings, Mont. I am also a member of the executive board of the American Association of Homes for the Aging.

I appreciate this opportunity to represent AAHA in today's discussions of the impact of the administration's housing proposals on the elderly. As leaders of the voluntary sector, the nonprofit homes that comprise AAHA's membership have undertaken the responsibility of providing appropriate housing for the elderly.

We have written testimony, Mr. Chairman, and would like to submit that for the record. I will not take the time to read it in its entirety because I know that time is of importance at this point. I would, though, like to highlight some of the things in this testimony, and I would also like at this time to introduce Laurence Lane, director of public policy for the American Association of Homes for the Aging, who has joined us, in the event that we have some questions later that some of the others of us cannot answer.

Senator MELCHER. Your entire testimony will be made a part of the record and you may highlight it as you see fit.[1]

Mr. PETERSON. Thank you, Mr. Chairman.

We have a great concern over the administration's intent or proposal to cut Federal housing programs that they have suggested.

For the fiscal year 1982 the housing low-income persons received the largest cut of any budget authority of any Federal program. And for fiscal year 1983, it is our understanding that the total cuts could amount to almost $5 million.

It is important to emphasize our feelings that the nature and magnitude of the administration's proposals for housing clearly represents a nearly total abandonment of this Nation's commitment to insure a safe, decent and affordable housing for all Americans.

Although AAHA's position on the section 202 program has been represented by the Ad Hoc Coalition for Housing for the Elderly by Jeanne Kinnard, I would like to take this opportunity to show on the record that we appreciate the efforts of Senator Heinz and his leadership in drafting the legislation for reauthorization on the section 202 program, and also to Senator Chiles for coauthoring that bill.

I would like to speak about the housing production.

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[1] See page 57.

The American Association of Homes for the Aging strongly believes that the housing needs of elderly persons cannot be met without the active participation of the Federal Government in the construction and rehabilitation of new rental units. In addition to the continued growth of section 202, public housing and rural housing programs, we urge that the goals of the section 8 new construction and rehabilitation programs not be forgotten.

In closing down Federal assistance for rent housing construction, the administration is effectively closing down new housing for the elderly.

The repercussions of the administration's plans to replace construction programs with voucher assistance are very frightening.

First of all, such approach will deny those most in need of assisted housing suitable and adequate living arrangements.

Second, it will cause a budgetary shift to the more expensive health programs of the Government, inasmuch as for those who need shelter and assistance.

Hospitals and nursing homes become the alternative to congregate housing.

Third, the program as outlined, is unworkable under any scenario, inasmuch as it does not stimulate a supply of adequate shelter.

So, we strongly recommend that the section 8 public housing, and section 202 programs continue to produce newly constructed housing for low-income families, including the elderly. Concurrently, HUD should design and study other subsidy mechanisms that would improve the capacity of the Federal Government to assist in the production of new affordable units, including congregate housing.

I would like to talk about or highlight the housing voucher program.

The administration's plan to modify the section 8 existing program and create a housing voucher system will have, in our view, serious consequences for the elderly consumer.

We think that taken to its extreme, that we run the risk of creating a situation where the weakest of the poor are brought into competition with economically stronger families for limited amounts of public dollars and private initiatives.

So, we therefore recommend, or AAHA recommends, that the section 8 existing program remain intact and continue to be one of several delivery mechanisms for Federal rental assistance.

I would like to comment on the rent increase recommendation.

Last year AAHA supported the administration's plan to increase tenant rents from 25 to 30 percent of adjusted monthly income. We felt this was an equitable way to share the burden of increasing cost of subsidized housing.

This year, however, we are faced with three additional proposals that will significantly raise tenant rents, including the value of food stamps as income, for the purpose of determining eligibility and rent share, and eliminating deductions for excessive medical expenses.

First, with respect to counting the value of food stamps as income, we reject this for the simple reason that it places the greatest burden on the very poorest households, those receiving maximum food stamp assistance.

It is a well-known fact that a healthy diet helps to prevent the costly and unnecessary institutionalization of elderly persons. Counting food stamps as income could discourage senior citizens from applying for food stamps and consequently lowering the quality of their diet.

We urge the Congress to reject the administration's proposal to count the value of food stamps as income in subsidized housing.

Second, the administration has stated that its regulations standardizing income deductions and calculations will substitute the present deductions from income of medical expenses exceeding 3 percent of gross income with a standard deduction of $300 for all elderly individuals. Again, we cannot support this change because it will place the greatest burden on those least able to pay; the very poor and the sick. In this case, the elderly and the handicapped will bear the brunt of this measure.

AAHA urges Congress to enact a provision directing HUD to continue allowing income deductions for medical and other unusual expenses.

We support phasing in the 30 percent of income rent payment at 1 percent per year, and urge the retention of the 10-percent cap on rent increases as a result of provisions of the 1981 Omnibus Reconciliation Act.

Mr. Chairman, time does not permit a complete discussion of all the items that are of concern to our members. Appendixed, and to be delivered this afternoon, to this testimony is our letter of April 9, declaring our strong opposition to the elimination of the section 232 FHA insurance program and other valuable supports for capital development.[1]

Additionally, we will deliver this afternoon a chart setting forth a side-by-side analysis of the housing legislation pending before the Congress with the positions established by our membership.[1]

I thank you for the opportunity to appear and to provide this testimony.

Senator MELCHER. Thank you very much, Mr. Peterson. Your prepared statement will be entered into the record at this point.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF DONALD A. PETERSON

I am Donald Peterson, administrator of St. John's Lutheran home in Billings, Mont. I also serve on the executive board of the American Association of Homes for the Aging and chair AAHA's Subcommittee on Financing.

The American Association of Homes for the Aging represents nonprofit, community-sponsored housing and health-related facilities serving the elderly throughout the United States. About 300,000 older Americans live in AAHA's 2,000 member homes, which are sponsored by various religious, fraternal, labor, civic, and county organizations. Additionally, thousands of older persons participate and benefit from outreach services such as nutrition programs, senior centers, and home health programs organized under the auspices of AAHA member facilities.

I appreciate very much this opportunity to represent AAHA in today's discussions of the impact of the administration's housing proposals on the elderly. As leaders of the voluntary sector, the nonprofit homes that comprise AAHA's membership have undertaken the responsibilities of providing appropriate housing for the elderly. The tradition of providing charitable care and shelter was initially carried out in homes for the aging—the first congregate housing. Many in existence today date back to colonial times. Today, the involvement of nonprofit organizations in housing has

[1] Retained in committee files.

never been stronger. Although there has yet to be a national survey of housing for the elderly, we have found the experience of our membership to be representative. In 1981, over 56 percent of AAHA's member homes offered residential living to older persons. This figure has grown over the past 10 years and we expect that trend to continue. Residential alternatives offered by nonprofit homes span the continuum of living arrangements, including independent living, congregate housing, service-enriched housing, and housing associated with health-related facilities.

In this century, the charitable efforts to meet the social needs of American citizens have been joined by a strong moral and financial commitment by the Federal Government. This partnership has produced much of the housing for the low-income elderly available today. For those of us in community-based organizations who witness daily the urgent need for appropriate and affordable housing for older persons, this commitment has become a pressing priority. It is particularly distressing, therefore, to be faced with the administration's redefinition of the crucial Federal role in housing. In fiscal year 1982, funds for housing low-income persons received the largest cut in budget authority of any Federal program. For fiscal year 1983, the President's budget calls for additional cuts in low-income housing programs that total almost $5 billion—nearly the combined total of all the cuts in social services, medicare and medicaid, food stamps, welfare, education, training, and other "safety net" programs.

I will address the impact many of these budget proposals will have on elderly Americans in detail later in my testimony. It is important to emphasize our feeling that the nature and magnitude of the administration's proposals for housing clearly represents a nearly total abandonment of this Nation's commitment to assure a safe, decent, and affordable home for all Americans. This is a commitment upon which millions of elderly citizens rely. It is also a commitment upon which nonprofit organizations committed to serving older Americans rely.

This curtailment of the Federal commitment to meeting the housing needs of older persons will have an immediate and adverse impact on the voluntary sector's capacity to serve. Without a strong Federal role, the implementation of the annual goal of 200,000 additional units of housing for the elderly, unanimously adopted by the recent White House Conference on Aging, is in serious jeopardy. We must, I am afraid, expect an inevitable conflict between this goal and the equally worthy objectives of fiscal restraint and a balanced budget. However, as a Nation, we cannot achieve either goal at the expense of the other. A balanced budget based on the elimination of a Federal role in meeting the social needs of older Americans is no lesser an evil than irresponsible Federal spending to meet those needs.

I will focus my remarks today on the President's housing budget and legislative proposals, and present our views concerning their effect on the elderly consumer. In particular, I will address the elimination of housing production programs, the new housing voucher concept and the proposals that would increase rents for tenants of HUD-subsidized housing.

Although AAHA's position on the section 202 program will be represented by the Ad Hoc Coalition for Housing for the Elderly, I would like to take this opportunity to thank you, Mr. Chairman, for your leadership in drafting and introducing the section 202 reauthorization legislation, (S. 2404) and to you, Senator Chiles, for coauthoring this important measure. 1983 will be a critical year for the section 202 program. This committee's historical commitment to the preservation of section 202 housing is an important asset for advocates seeking to make a good program even better.

HOUSING PRODUCTION

The American Association of Homes for the Aging strongly believes that the housing needs of elderly persons cannot be met without the active participation of the Federal Government in the construction and rehabilitation of new rental units. In addition to the continued growth of section 202, public housing and rural housing programs, we urge that the goals of the section 8 new construction and rehabilitation programs not be forgotten.

So often in policy discussions, we equate housing for the elderly with the section 202 direct loan program. Yet after 22 years, section 202 units represent only 3.5 percent of the elderly occupied units subsidized by HUD. Public housing is by far the largest landlord for the low-income aged, with over 440,000 units occupied by elderly families. In recent years, the various section 8 programs have been the greatest contributors to the availability of decent, affordable housing for the elderly—with nearly 70 percent of all newly constructed section 8 units assisting elderly households (figures as of end of 1980, Urban Institute). It is evident, therefore, that the

administration's concession to fund the 1983 section 202 program in the amount of 10,000 units cannot be expected to significantly improve the availability of housing for the low-income elderly when other major resources for the production of new elderly units have been shut down. In closing down Federal assistance for rent housing construction, the administration is effectively closing down new housing for the elderly.

While the Federal Government is a significant provider of affordable rental housing for the low-income elderly, it is virtually the only provider of congregate housing for this group. Only very recently has the Federal Government officially recognized the value and need for living facilities that address more than shelter needs. Despite considerable bureaucratic consternation, congregate-type housing facilities specially designed to provide an environment where the total needs of the aging residents are met, are being built with Federal assistance. Too often, it is these facilities that critics of Federal housing policy point to and cry, "luxury housing!" But there has yet to be a serious look behind the per unit costs to see what has been built and why. Community space, kitchen and dining facilities, space for health clinics, emergency call systems, physically accessible units, handrails along hallways, self-closing doors, these are not luxuries to an aging resident; they are necessities—necessities that are reflected in higher construction costs. These necessities enable the resident to remain independent in their own homes and avoid costly and unnecessary institutionalization. They provide safe shelter; accessible to those with frailties of age, and protection from fire hazards. Congregate, social care, and supportive living facilities will continue to be built for those who can afford it. But we must ask ourselves: Who will build these facilities for the poor without the section 8 program and without public housing? They do not exist in sufficient numbers now, and without a continued Federal commitment in the form of a variety of construction assistance mechanisms, the progress we have made in increasing the availability of this alternative housing arrangement will cease.

The serious repercussions of the administration's plans to replace construction programs with voucher assistance is not merely the denial of appropriate housing for the low-income aged. A serious drain on the Federal health care budget is likely if the mechanism for developing new congregate-type housing are eliminated. There is substantial evidence that to eliminate construction assistance for elderly housing facilities is to be "penny-wise and pound-foolish."

The General Accounting Office, in its report, "Entering a Nursing Home—Costly Implications for Medicare and the Elderly" says it best. "The lack of an adequate range of housing options between independent living, supported by community services and the nursing home, is viewed by many as the most critical gap in community-based long-term care services * * * The need for congregate facilities is estimated to be greater than that for nursing home care. In areas where there is a tight supply of congregate facilities and community support services, many individuals may be placed in nursing homes to obtain long-term care. This results in substantial inappropriate institutionalization in medical facilities and an accompanying drain on medicaid dollars."

Many local efforts to stem the flow of frail, but not sick, elderly into nursing homes have failed due to the lack of appropriate housing in the community. The result has been a direct cost to Federal and State governments in the form of medicaid assistance.

Long-term care represents about 13.5 percent of all health expenditures, public and private, or some $32 billion in 1980. Nearly $20 billion of this long-term care bill comes from public expenditures (HHS, services delivery assessment, 1981). Projected forward, nursing home costs are expected to rise to $44.6 billion in 1985 and $81.9 billion in 1990 (HCFA national health expenditures, 1981). Such cost increases will gravely strain public resources. Yet, a national housing policy that would commit just 5 percent of what we already spend on long-term care could fund an additional 20,000 units per year of housing specially designed to appropriately meet the needs of a frail population at far lower costs than nursing care.

The Under Secretary's Task Force on Long-Term Care at the Department of Health and Human Services recently reported that the number of adults needing congregate housing and other sheltered arrangements exceeded the number actually residing in such facilities by more than 1.1 million. By 1985, it is estimated that this unmet need will approach 1.3 million. Over 60 percent of older persons with activity limitations have low incomes. Supporting these individuals in congregate housing can cost half of the nursing home expenses for the same population. But the Federal Government must invest in physical structures that enable this solution to work.

We recommend that the section 8, public housing and section 202 programs continue to produce newly constructed housing for low-income families, including the

elderly. Concurrently, HUD should design and study other subsidy mechanisms that would improve the capacity of the Federal Government to assist in the production of new affordable units, including congregate housing.

HOUSING VOUCHERS

The administration's plan to modify the section 8 existing program and create a housing voucher system will have, in our view, serious consequences for the elderly consumer. The experience of the section 8 existing program and the experimental housing allowance program (EHAP) illustrates this point. By 1980, elderly participants in the section 8 existing program were outnumbered by elderly persons living in section 8 new construction units more than 2 to 1. Over half the elderly couples lucky enough to receive section 8 existing certificates could not find housing in the community within the 60 days allotted them. The EHAP findings show that elderly persons are less likely to know about voucher assistance and less likely to enroll once they do know about it. The section 8 existing program is not an inappropriate means of providing housing assistance, but for the elderly consumers whose housing needs are far more complex than mere affordability, it cannot stand alone as the only assistance mechanism.

The SSI or supplemental security income program offers another look at how vouchers could affect the elderly. As you know, SSI is an income maintenance program for the aged, blind, and disabled, administered by the Social Security Administration. SSI can provide for direct cash payments to consumers. Like the voucher system, recipients are free to spend their money as they choose. But in reality, SSI payments are not sufficient to meet the varied needs of the elderly, blind, and disabled, most of whom require some assistance in order to live independently. Many have turned to boarding homes where their SSI check is turned over to the owner for shelter, meals, some services, and a small personal allowance. Fatal fires, reports of fraud, abuse, and poor quality care have focused national attention on the boarding home issue. Many experts and organizations, AAHA included, suggest a vendor payment approach, in which States would have the right and responsibility to enforce simple structure and quality standards for such homes. While it is difficult to argue for increased Government regulations, there are areas where profiteering and victimization require Government oversight. This is especially true where Government dollars are involved. We are not saying that housing assistance in the form of vouchers will necessarily duplicate the SSI problem. However, the free market system operates less well for the low-income elderly and disabled than for any other population group. Subjecting the housing future of the low-income elderly to market forces does not guarantee that the private sector will respond and develop the suitable alternatives.

It is more likely that vouchers will be scarce and that the elderly consumer will be forced to compete with families for dwindling housing dollars. For many healthy, mobile, and younger people, vouchers may, in fact, be the best choice. Taken to its extreme, however, we run the risk of creating a situation where the weakest of the poor are brought into competition with economically stronger families for limited amounts of public dollars and private initiatives. Beyond the conceptual problems found in the voucher approach as the only mode of Federal housing assistance, the "modified" section 8 existing housing program, as proposed by the administration, raises other specific issues. Lowering fair market rents by 20 percent will further reduce the number of available units voucher holders may rent at 30 percent of their income. Payment of additional costs beyond the rent limit will place great strain on the fixed incomes of elderly recipients. This provision is especially detrimental since HUD makes no provisions for increasing subsidy payments when rents go up.

Therefore, AAHA recommends that the section 8 existing program remain intact and continue to be one of several delivery mechanisms for Federal rental assistance.

TENANT RENT INCREASES

In considering the impact of the proposed changes that would raise tenant rents, we move from the impact on our capacity to meet unmet needs to the direct and immediate toll these policies will have on individual residents of HUD housing. Therefore, it is useful to consider who these residents are.

The vast majority of elderly residents of HUD-assisted housing are single women—the survivors of our society who are outliving their age expectancies. In public housing, as many as 45 percent of the elderly residents are over 75 years of age. They are also poor . . . the average annual income with elderly families in public housing roughly $3,500. Residents of section 8 new construction are a little

better off with an average of $4,300 per year. In every program, at least two-thirds of the residents rely on social security as their major source of income. And if a resident has any assets at all, they are most likely to be no more than $1,000.

Last year, AAHA supported the administration's plan to increase tenant rents from 25 to 30 percent of adjusted monthly income. We felt this was an equitable way to share the burden of the increasing cost of subsidized housing. Residents of AAHA member facilities also supported the rent increase although it would mean a 20-percent rent increase when fully implemented. In a recent letter to President Reagan, the residents of CTA River Apartments, a section 236 project in Tampa, Fla., wrote, "Even though (the rent increase) will put a strain on our budgets, we have accepted this change because it will be phased in and will allow us to plan our budgets to reflect this increase." This letter illustrates the general feeling of our membership that we must do our part to reduce the Federal deficit.

This year we are faced with three additional proposals that will significantly raise tenant rents, including the value of food stamps as income, for the purpose of determining eligibility and rent share and eliminating deductions for excessive medical expenses. Furthermore, HUD wants to raise the cap on tenant rent increases from 10 to 20 percent to achieve the maximum immediate effect of these changes. AAHA firmly believes that these proposals should not be adopted.

First, with respect to counting the value of food stamps as income, we reject this for the simple reason that it places the greatest burden on the very poorest households, those receiving maximum food stamp assistance. Like the voucher system, it affects those persons least able to compete. In this case, it is large, very poor families who will be hardest hit by the food stamp proposal. Furthermore, food stamp assistance encourages a nutritionally adequate diet for older persons. It is a well-known fact that a healthy diet helps to prevent the costly and unnecessary institutionalization of elderly persons. Counting food stamps as income could discourage senior citizens from applying for food stamps and consequently lower the quality of their diet.

We urge the Congress to reject the administration's proposal to count the value of food stamps as income in subsidized housing.

Second, the administration has stated that its regulations standardizing income deductions and calculations will substitute the present deductions from income of medical expenses exceeding 3 percent of gross income with a standard deduction of $300 for all elderly individuals. Again, we cannot support this change because it will place the greatest burden on those least able to pay, the very poor and the sick. In this case, the elderly and handicapped will bear the brunt of this measure.

We have received data from one section 202/8 facility in Ohio where a resident's medical expenses ran as high as $3,800 per year, more than one-third his annual income. Without a rent cap, this person would experience a 40-percent rent increase next year. A random sample of residents in this project showed that the average rent increase due to the substitution of a $300 deduction for actually incurred medical expenses alone would be at least 25 percent next year.

A more complete analysis of the combined effect of raising rents to 30 percent of adjusted income and eliminating medical deductions was carried out at another member home in Florida. This study shows that over the 5-year phase-in period, as much as 88 percent of a resident's improvement in income would be absorbed by the rent increases alone. With all the other benefit reductions facing the poor elderly, this is a clearly excessive measure.

In the case of medical deductions, we are not handing residents something for nothing. Deductions for medical expenses must be documented to be actual out-of-pocket expenses. A standard deduction based on age alone would give healthy seniors a bonus and penalize the infirm.

AAHA urges Congress to enact a provision directing HUD to continue allowing income deductions for medical and other usual expenses.

We support phasing in the 30 percent of income rent payment at 1 percent per year, and urge the retention of the 10-percent cap on rent increases as a result of provisions of the 1981 Omnibus Reconciliation Act.

ADDITIONAL CONCERNS

Mr. Chairman, time does not permit a complete discussion of all the items that are of concern to our members. Appendixed to this testimony is our letter of April 9 declaring our strong opposition to the elimination of the section 232 FHA insurance program and other valuable supports for capital development.[1]

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[1] Retained in committee files.

Additionally, I have appendixed to my testimony a chart setting forth a side-by-side analysis of the housing legislation pending before the Congress with the positions established by our membership.[1]

I thank you for this opportunity to share with the committee our views about these important matters of mutual concern.

Senator MELCHER. Thank you very much, Mr. Peterson.

Marie McGuire Thompson, housing specialist for the International Center for Social Gerontology, here in Washington.

STATEMENT OF MARIE McGUIRE THOMPSON, WASHINGTON, D.C., HOUSING SPECIALIST, INTERNATIONAL CENTER FOR SOCIAL GERONTOLOGY

Ms. THOMPSON. Mr. Chairman, I come to speak in behalf of the National Association of Housing and Redevelopment officials who represent, across the country, the more than 4,000 local housing authorities. I am a 40-year member of the association.

As you know, public housing has been one of the first programs and certainly the largest program of housing for the elderly in this country. The housing authorities primarily respond to the needs of those in the lowest income groups.

I was delighted to hear Ms. Feingold admit, quite frankly, that under operating cost problems and others they are not able to reach down into the lower income housing needs of older people who are living on very strict incomes and must depend on public housing to meet this need.

It has been the position of the National Association of Housing and Redevelopment officials to support public housing through its many housing authorities. And we have extensive examples of the wholehearted response of these local housing authorities, local political entities, to the special needs of low-income elderly people living in dilapidated, substandard, very bad housing, and in desperate need of improved conditions within their paying ability.

I do not think I need to make a case for the public housing program with respect to the low-income elderly, and particularly with respect to the projects specially designed to take into account the detriments that do come on with aging, to make it easier for older people to cope with the environment, to provide dignity and a sense of belonging and indeed, to tell them, in essence, through the low rent housing program, that they are needed, wanted, and a part of the community of man in this country.

Therefore, having this strong feeling and having been involved in developing the first public housing specifically designed for older people in the country under the public housing program, I am most concerned, and indeed horrified, at some of the suggestions being made that would make it seem that the low-income elderly are among some of those who will be the ones to carry the burden of reducing the Federal budget.

But, in any event, to be more positive, I would like to say, just off the cuff, that I was again disturbed when I heard the Secretary of HUD this morning say that they are thinking about doing away with age limits in housing for the elderly, which automatically will do away with the concept that has been developing over the past 30

[1] Retained in committee files.

years in this country and in Europe; the concept of the special design needs of older persons, and what makes the housing special, not only the housing and the unit safety, but also the community facilities that promote a sense of belonging, makes possible social programs and other kinds of benefits to the older person, particularly if he too suffers from low income.

I would like briefly to mention and talk about congregate housing. Congregate housing had its genesis in 1963 when the first five experiments were done in public housing with respect to housing with a built-in services program. Later on, by 1970, the Congress had passed a Congregate Housing Act, but provided no subsidy for the service elements in order to keep older people in their residences who could stay on with supportive assistance. They were not ill, simply needed help with daily chores.

As Ms. Feingold observed, the only alternative in many communities, if not in most, is that if you do not have the services as aging comes along, then you must go into a nursing home, even though it is premature, even though it is costly, and even though it is neither wanted nor needed by the older person.

To meet this problem, and after many many years of research in this country and European countries, the conclusion is firmly that if we provide certain basic services within the housing complex as part of our planning and part of the planning for the older years, then older people will not have to go to nursing homes prematurely and live among the sick and dying, when they themselves are not ill.

This is the tragic situation that we find today. And I was delighted to hear this morning from Chairman Heinz that he has introduced legislation to continue and resurrect the congregate housing program and its social and economic concepts. Congregate housing was funded only minimally—$10 million—as you know, for 2 years and then seemed to disappear from the scene. Those of us who have done a great deal of study and a great deal of research in this particular field, to highlight the gaps in our programs of housing and living arrangements for older people, and struggling for solid legislation to overcome those gaps, know congregate housing is more economical than nursing homes and other types of medical facilities. Our conclusion—the same conclusion has been reached in Western European countries—that housing with services must be one answer to the whole problem of longevity and response to it.

I would comment that in public housing—and I presume in section 202 and other types of housing—where we build without a thought for these services that inevitably will be needed, it is as if we expect our elderly tenants not to have birthdays after they move into our beautiful housing.

How ironic it is, that we put aside, and are required to put aside, reserves against the wear and tear of age on the buildings, but we require no such planning for the wear and tear on the tenants themselves, and what the needs are as the older years come along.

I know that in some of the section 202 housing we do have combinations of housing with medical facilities. We have other types of combinations. But I would submit that all housing, all housing designed today for the elderly, whether for independent elderly, or whatever, should be so designed that it can readily and economical-

ly be used to accommodate the services needed to sustain people in their communities where they want to be.

I think I will stop there, because Senator Heinz referred to the fact that he has in his new legislation suggested the continuation of congregate housing and the concept of housing with services. And I am only hoping that the Congress will see fit not only to retain congregate housing at its minimal level enjoyed the last 2 years, but also retain it at a much higher level and over a span of time as the housing concept for this country.

Thank you.

Senator MELCHER. Thank you, Ms. Thompson.

Ms. Kinnard, would you elaborate on the proposal to eliminate the section 232 FHA insurance program?

Ms. KINNARD. I would be happy to, but I believe to my right is the director of public policy at AAHA, and he is a long-term expert on section 232. I think his answer would be better than mine, Senator.

Senator MELCHER. All right.

Mr. Lane, would you do that?

Mr. LANE. Thank you, Senator.

Section 232 program has been the FHA insured program that helps underwrite the risk of conventional market financing for the development of long-term care facilities. Its relationship has been that when you look at the number of units for elderly, particularly if you take a viewpoint that shelter is the basic common denominator of any service system that deals with older persons, the section 232 program has actually spawned a very large number of units that provide for the needs of older persons.

The budget proposal is to eliminate the section 232 program. And I do not believe that there was a lot of foresight given in making that recommendation, because in amendments made by this Congress in 1976, and again in 1978, there were two very important additions to the FHA section 232 program.

In the 1976 amendments the Congress added that the section 232 program would be used for underwriting fire safety equipment. We have only one Federal program that provides any technical help for providers of long-term care facilities to meet the fire safety code, and that is the section 232 program, which helps to underwrite that risk in terms of insuring conventional financing.

The 1978 amendments provided FHA insured underwriting for the use of the section 232 program with adult day care centers and other nonresidential care approaches.

Now, in today's Washington Post there was an issue raised about boarding homes and the relationship of fire safety in boarding homes.

The American Association of Homes for the Aging has advocated for some time that the Congress should extend the FHA section 232 program, particularly its fire safety provisions, to help underwrite the making of necessary fire safety improvements in those domiciliary care programs that relate with the SSI program.

That move to alter section 232 at this time comes at a critical period when we need to refinance or reconstruct a large part of our service delivery system. The section 232 program, in tandem with bonding approaches, in tandem with other conventional mortgag-

ing approaches, helps to underwrite part of that risk. And even though the program has not been used greatly in the last few years, that is an offshoot of the market conditions that have allowed additional approaches to be used.

We believe that the section 232, as well as the section 231(d)(3), and other FHA insured programs, will begin to be very important, and that Congress should not, at this time, discontinue authorization.

Senator MELCHER. Thank you.

Ms. Feingold, the study by Dr. Struyk indicates that 1981 changes in housing laws mean that increasingly more poor elderly than nonelderly will be occupying the assisted housing projects.

What do we need to do to develop a good Federal housing policy in that light?

Ms. FEINGOLD. Well, it seems to me that we may be at a point of needing to make some kind of radical departure in housing policy, not just in terms of housing for the elderly, but for assisted housing generally.

I am dismayed that at a time when the private housing market finds itself in a state of collapse, and, even when functioning it is unable to provide housing for any but the highest income 20 percent of the population, that we seem to be placing more and more reliance on a vouchering system which, while theoretically makes a lot of sense, in fact, makes housing unattainable for many people with the vouchers.

In Boston, and in a number of other cities, the "finders keepers" certificates are never used up. It is not like section 8 where there is always more demand for units than there are allocations. There is competition for those section 8 dollars.

Residents with section 8 certificates in a city like Boston, are, in fact, unable to find housing which meets the standards, either in terms of price or in terms of condition. The vouchers cannot close the gap between low income and market rents.

We have a housing crisis in the older cities of this country and it is foolish to close our eyes to it.

What, then, would be a radical departure in housing policy? I look at enormous interest payments for construction costs which tie up the Treasury of the United States for 30 and 40 years paying these costs, and I begin to wonder whether the time has not come to pay for the capital costs of building low-income housing.

This was a seriously considered proposal in the 1930's when the public housing program first began. It was again seriously considered in the early 1950's. And each time it was rejected because we preferred to have our assisted housing follow the general housing market as closely as possible. But at a time when the general housing market is working with 14-, 16-, 18-, and 20-percent money, and even the subsidized housing market is looking at 10-, 11-, and 12-percent money, it is worth considering saving money in the medium run and certainly not committing a future demand on the Treasury that appears endless.

Senator MELCHER. You say that this has been looked at twice.

Ms. FEINGOLD. Well, to my knowledge. I am sure it has been looked at many times.

Senator MELCHER. Do you suggest looking at it again even more seriously?

Ms. FEINGOLD. Yes; I do.

Senator MELCHER. Mr. Peterson, do you know how many are on the waiting list in Montana for section 202 units?

Mr. PETERSON. No; I guess I really do not know what the waiting list is.

Senator MELCHER. Mr. Lane, do you have any idea nationally?

Mr. LANE. Generally, the last time this was looked at was when Senator Williams held some hearings on section 202 about 3 years ago. And at that time, in a State like New Jersey, there was a 3 to 1 ratio; three times as many people on the waiting list as there were in the housing units that were available.

I believe we might be able to at least extrapolate some data to give a sense of what that demand would be.

Senator MELCHER. Well, I do not think it would have improved any since then.

Mr. LANE. Certainly not. And, in fact, probably has become much more pressing.

Senator MELCHER. The question is often raised about section 202 projects whether the costs could be reduced substantially if the projects included fewer amenities.

I do not know exactly what an amenity is. Some people think a balcony is an amenity, or a swimming pool, or a bowling alley, or dishwashers.

Is this much of a problem?

What are we talking about here? Either from the way HUD talks, or what their statements are, or from the practical standpoint, just what does the amenities mean in construction, and what should we call an amenity?

Ms. KINNARD. Well, you raise the point that there is various definitions of amenities. They range from carpeting in a unit, to swimming pools and saunas.

It is our contention that there are included in this list of amenities many items that are important to projects like section 202 projects. Carpeting in a bedroom may be appropriate to someone who is prone to falling, such as frail elderly people. Handrails along hallways may not be part of the minimum property standards, but they assist in the ability of that facility to keep people independent longer.

The study that I referred to in my testimony does make an analysis of the impact of amenities on the development costs of projects. And they have found that they do not make any significant impact in increasing development costs. And they include in their list of amenities laundry rooms, community space, balconies, swimming pools.

In the section 202 projects studied for that, none of those projects had swimming pools. And to my knowledge, there are no bowling alleys in section 202 projects either. And yet when the issue is raised, it is traditionally that we must restrict section 202 funding of these unnecessary amenities. And I have yet to see it, frankly.

Senator MELCHER. If somebody raises a point of a bowling alley being an amenity, and yet there is no bowling alley in section 202 housing that you know of, who does know of it?

Mr. PETERSON. I do not know of any bowling alleys, but I am wondering if we are not confusing amenities with what some people think of as luxury items. And I think we need to be concerned that we are talking about necessities in most cases when we are talking about amenities, such as what Jeanne Kinnard mentioned; the handrails and so on. Because, remember, we are talking about an average age in many of these facilities that is way up in the eighties. As you know, Eagle's Manor in Helena, has an average age of 87. My facility, 85. We are talking about frail elderly who are able to maintain an independent living environment because we provide some of these so-called amenities that are necessities.

Senator MELCHER. Well, it seems odd to me to be talking about carpeting as an amenity. I think a lot of builders find that carpeting is a cheaper way of finishing the floor than some other way. It is certainly cheaper than hardwood floors. I do not know what would be a cost-effective covering if it wasn't carpeting. It has no greater maintenance cost, does it?

Mr. LANE. Senator, this whole concern raises the issue of what is it that we expect or should expect in providing a living arrangement.

Federal policy has generally been geared toward either a bare-bone living arrangement housing unit, with no sense of what the relationships between people who live in those units are, and/or a nursing home where we provide extremely intense service delivery with a medical orientation.

Part of the problem is that if it is in budget function 600, and for example, rental assistance, we think of it as a housing issue. If it is in budget function 550, we see it as a health issue. This underscores what Dr. Thompson mentioned. We need congregate living arrangements. In developing housing for older people we need to be looking ahead to their needs as they live in that housing. Suitable housing will provide the lowest cost option to the public government. We would contend very strongly that many of those items that have been characterized as luxuries are, in fact, bona fide amenities within a living environment that provide safety, provide congregate living experiences, and provide a meaningful living environment for individuals to make it their home.

Senator MELCHER. Well, the fiscal year 1983 unit cost for section 202 housing is estimated to be about $52,000.

Does anybody know what the proper figure would be? I am advised that HUD says it might be $47,000 or $52,000.

Ms. KINNARD. I believe that the mortgage limit costs for the 1982 program are $47,000.

Senator MELCHER. The 1982 program. How about the 1983?

Ms. KINNARD. There is usually an inflation factor built in. However, the costs will not be assigned to the 1983 units until the competition next spring.

Senator MELCHER. You really do not know then.

Ms. KINNARD. It will depend heavily on the experience that we have this year in development costs.

Senator MELCHER. I think CBO is saying it is probably going to be about $52,000.

If you were to fill section 202 housing without congregate space it would not make any sense; would it?

Ms. THOMPSON. What was the question? If you built congregate housing?

Senator MELCHER. If you built section 202 housing without congregate space, it would not make any sense; would it?

Ms. THOMPSON. No; for a time, older, independent people, could live there. But you are faced with a problem of not being able to make this a permanent residence over the years, as inevitably the years will come on and some detriments or impairments will take place. The concept of congregate housing is to make it possible for the older person to remain in his home, among his neighbors and friends, for the longest possible span until, in fact, he needs medical care. We might call it a semidependent atmosphere or environment, but that is inevitable too as the years come on.

I am fond of saying, Senator, that it is what we would do for our own aging parents if they lived in our homes, the simple things; the meal preparation and shopping, the housekeeping help, and so on.

Senator MELCHER. It simply would not make any sense not to have it; would it?

Ms. THOMPSON. It does not make any sense at all to not have it, and not to require it at the very beginning of the design process. Otherwise, you get into structural changes later on that are extremely costly, and do not accommodate adequately the services that the people in residence require.

Senator MELCHER. I would like to point out that if that is to be called an amenity, it is a little bit ridiculous because even in prisons it is Federal policy to have congregate space. And I do not know of any Federal court that has not instructed every State and every county in this country to get with it in adapting a jailhouse to have congregate space.

Ms. THOMPSON. Right.

Senator MELCHER. So, we remove that as an amenity. If that is supposed to be a luxury item, we will rely on Federal policy being to the contrary.

Mr. PETERSON. As I said earlier, I think we are confusing amenities with necessities. And I think it is very important that we have congregate space because the elderly, just like anyone else, need an opportunity to be active, to be socially active, and have an opportunity to be involved, and without congregate space where do you spend your time? In your room? In your apartment?

Senator MELCHER. In your cell.

Mr. PETERSON. In your cell. OK.

Senator MELCHER. That is being struck down by Federal courts for prisoners. They have to have congregate space. So, perhaps we can recognize the absurdity of any Federal policy on housing that would not recognize congregate space as a necessity rather than some sort of an extra.

There is a real concern I have, and I am sure others in the committee have had, about just what direction HUD is headed in trying to make demands on administrators for some sort of policy dreamed up here in Washington, I suspect, and then passed on to the regional offices as some sort of a mandate to ignore common-

sense in letting the administrators and the people that they are taking care of make some judgments.

We had a situation that surfaced in Montana where a retirement home had met with refusal from HUD to grant a rent increase or allow repair money to be used unless the mandatory policy of three meals a day was eliminated.

Why should we, or should we interfere in this type of decision? I mean allow HUD to interfere. I will put it more clearly.

Mr. PETERSON. I think what has happened over the years is that communities have developed programs that specifically meet the needs of the elderly in that community, and in communities where there are more than one facility, you see different programs developing in different facilities. And that is a variety offered then to a community. And if a program has developed and there is a demand for that program, it is meeting a need in that community, then I do not understand why we all of a sudden should change our direction and force facilities to eliminate programs that are successful.

Senator MELCHER. Well, I certainly agree. I feel frustrated at times that we seem to have to overregulate when commonsense would allow decisions to be made within the housing unit itself and within the home itself.

I want to thank all of you for assisting this committee in making some judgments. I think your testimony has been outstanding and your advice based on the experience you have had working in the programs. It is very timely and it is critical. It is critical that we have this type of input at this time.

We are not in such dire straits in this strong country of ours that we have to take steps to cure a bad economic situation by simply mortifying, almost physically restricting the elderly an opportunity to live with the opportunity for decent comfort. We are not being lavish in any of these programs. We are trying to be very practical. And to somehow relate the impractical and having some sense of balance that we have to say to the elderly, well, due to budgetary restraints, we regretfully tell you that your minimum opportunities and comforts are going to be sacrificed, I do not think that that is what this country needs to do, has to do, or would conceivably do. But it is important that the public understand that some of the proposals that have been made would absolutely foreclose any opportunity of decent living conditions for a great many of the elderly. And I can assure you that we do not intend to let that happen here in Congress. To the extent we have to inform the public of what these programs are about, it is our responsibility to do so. And to the extent that we have to bring some reasonableness to HUD and other people in the administration, that is also our responsibility. But it is our firm intention to proceed and to take a leading position, as this Special Committee has always done, in identifying what are the needs and what are the goals for the elderly. We have not attained anywhere near the goals we would like to attain for the elderly, but we are certainly not going to let it all be washed out, what little progress we have made.

So, your testimony is most helpful to provide us with the type of reasoning, logic, and need that we must express to the rest of our colleagues in the Senate and, of course, in our conversations and our discussions with the administration.

I want to thank you all very much.
The committee is adjourned.
[Whereupon, at 12:25 p.m., the committee adjourned.]

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